
Department of Economic Affairs

The Task Ahead

*Economic Assessment
to 1972*



London
Her Majesty's Stationery Office
1969

This assessment of the national economic prospect to 1972 and its industrial implications was prepared by the Government as a basis for consultation with both sides of industry. Discussions have already taken place in the National Economic Development Council and will continue there later in the year. They will now be widened to include individual industries in the Economic Development Committees and elsewhere. The text takes account of these discussions in the NEDC: but the views expressed in it are the responsibility of the Government. The assessment will be reviewed in the light of economic developments and of the further consultations with industry. The Government have decided to publish the present document so that Parliament and the public as well as management and unions may be informed of the issues involved.

Preface

BY THE SECRETARY OF STATE FOR ECONOMIC
AFFAIRS

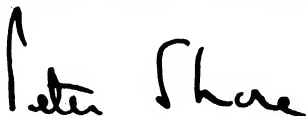
For the past ten years and more Britain's economic performance has been poorer than that of other highly industrialised nations. More important, it has lagged well behind what people believe to be both possible and desirable. The resulting gap between performance and potential is the major cause of present discontents and is damaging to the well-being and morale of the nation.

To help close the gap by improving national performance is a major purpose of economic planning. This document sets out the Government's view of the prospects and tasks ahead and its own policies in relation to them. It indicates, on the basis of past trends, a possible course for the economy up to 1972. It also indicates the consequences of a better or worse performance.

In the event, what happens will depend on all of us. The crucial point is that the gap between national performance and what we want for ourselves and others—whether in terms of improvements in social and community services or in terms of our contribution in the world at large—can only be closed by our own skill, effort and adaptability as producers.

To produce more and better goods and services, to produce them at competitive prices and to sell enough abroad is therefore the main answer to our present problems. More than anything else this will determine how swiftly we move into surplus with the rest of the world and the rate at which our national wealth can grow.

It is right that these prospects and the choices with which they present the country should be the subject of discussion not only with industry, but also in Parliament and among the public as a whole. It is the purpose of this document to provide the necessary basis of fact and economic assessment on which discussion can proceed.

A handwritten signature in black ink, reading "Peter Shore". The signature is written in a cursive, flowing style. The first name "Peter" is written with a large, sweeping initial 'P' that extends upwards. The last name "Shore" is written with a large, sweeping initial 'S' that also extends upwards. The signature is positioned at the bottom right of the page.

Contents

Chapter 1	Purpose of this document	<i>page</i> 1
Chapter 2	Economic strategy and prospect	9
Chapter 3	Balance of payments	24
Chapter 4	Output, employment and productivity	34
Chapter 5	Public expenditure	46
Chapter 6	Use of resources	56
Chapter 7	General industrial prospect	61
Chapter 8	Public industry	83
Chapter 9	Regional strategy and prospect	91
Chapter 10	The next stage : consultation with industry	108

Chapter 1—Purpose of this Document

This is a planning document, not a plan. That is to say, the document provides a basis for a further stage in the continuing process of consultation between Government and both sides of industry about major issues of economic policy. The central purpose of that consultation is, broadly, to enable important decisions affecting the future to be taken, in both the public and the private sectors, after a concerted exercise of foresight about the conditions in which those decisions will operate, and the way they may affect each other. Such consultations, in which responsible authorities, Governmental and industrial, consult together in the exercise of foresight and the evolution of practical responses to the conditions foreseen, are in effect part of a process of continuous forward planning.

2. The term 'planning' is commonly used to cover this exercise of foresight and decision over a wide range of activities—over the short-, medium- or long-term; over the disposition of financial and/or physical resources; and over a field of activity ranging from the macro- to the micro-economic. This document sets out to provide a basis for consultation about the prospect over the medium-term to 1972: over the development of real resources in that term: and to provide a broad macro-economic analysis as the necessary framework for discussion of the development of real resources in the micro-economic field, i.e. primarily that of industry.

3. Any look forward, whether over the short-, medium- or long-term, and whether concerning the economy as a whole, a single industry, or an individual firm, is bound to be at risk from the emergence of new factors which in large or small degree change the course of events and the prospect ahead. This is not a reason for abandoning the exercise of foresight as part of the decision-making process, but rather for making the forward assessment in a form which will so far as possible allow account to be taken of new developments without requiring the whole assessment to be radically revised. From time to time it

will, of course, be necessary to review progress and revise the assessment ; but, as explained in paragraph 14 below, this assessment has been designed with a view to reducing so far as possible the need for unduly frequent revision.

4. Recent events in the international monetary field, particularly since the gold crisis of March 1968, have presented a sharp illustration of this problem. But, whatever future developments in that field may be, they will not remove the need to make forward decisions about the deployment of real, and especially industrial, resources with which this document is primarily concerned. Nor will they remove the need to improve the deployment of those resources. This improvement requires to be brought about as fully and as rapidly as possible if the United Kingdom's position in the international monetary field, particularly in respect of the balance of payments, is to be improved. Indeed, where international monetary developments are adverse, they make still more urgent the need for improvements in the deployment of real resources and so in the forward decisions about that deployment.

5. The assessment in this document has, therefore, been designed to allow for variations, within reasonable limits, in the rate of growth, whether arising from internal or external causes, and whether the causes are within or without the country's control ; and to emphasise the dependence of the rate of growth alike upon the achievement of a satisfactory balance of payments and an improvement in the deployment of real resources at home. But, if both the assessment of prospects and the decisions to be taken in the light of it, i.e. the process of planning, are to be as soundly based as is possible in an uncertain world, these processes require to be carried out in full consultation between Government and both sides of industry, and the basic assessment necessary for that consultation which this document seeks to provide can initially be only a provisional and incomplete one.

6. There is, of course, always scope for controversy as to the nature and extent of economic planning, especially as to how far and in what forms it should extend from the demand to the supply side of the economy. But in all highly industrialised states, effective and continuing consultation between Government and both sides of industry is itself a prior condition of efficient planning, whatever

its extent and nature. Though the methods used to achieve the consultation vary widely in democratic states, and still more so between those states and the more authoritarian states, the same process of consultation goes on throughout the world, though its form varies according to the circumstances and the stage of development reached in a particular country. This assessment is put forward as a basis for the further development of that consultation in Britain.

7. In terms which are of practical application to this country today, economic planning as here defined involves at least the following operations:

- (a) Analysis of the existing economic situation and of past trends.
- (b) Projection of those trends, taking account of known changes in the situation, and an attempt to foresee the probable outturns. This includes an analysis of the uncertainties and of the possible variations in the outturn.
- (c) Discussion by all the parties concerned – principally Government and industries – of the analysis and projections.
- (d) Study and discussion of the constraints that are preventing better performance and of how they can be overcome.
- (e) Action by those concerned to overcome the constraints and so to improve performance.

8. There is much that can be done to improve the performance of the economy without having a numerical assessment of the economic prospect. The Government believe, however, that a comprehensive and, so far as possible, a quantified assessment of the outlook, reached in full consultation with both sides of industry, and public discussion of that assessment and of the risks and opportunities it reveals, can be of general benefit and can improve the many thousands of important decisions necessary for the running of the economy.

9. Decisions by the Government on the development of expenditure within their own control need to be taken in the light of the impact the expenditure is likely to have on the economy; but in some cases the assessment of that

impact cannot be effectively made without first seeking the views of industry. Moreover, it is important that the reasons for these decisions, such as that on the balance between public and private spending, should be properly understood by those whose decisions in other sectors of the economy are bound to be influenced by Government action.

10. The nationalised industries are clearly influenced in this way. They take their decisions on the planned growth of their industries in consultation with the Government and in the context of the expected general development of the economy. Private firms and organisations are increasingly looking carefully at the economic background when taking decisions on their future activities. Corporate planning is growing rapidly in the private sector, and many of the larger and the more successful firms practise it. The Government themselves are making a major effort to improve industrial statistics, but this will take time and itself requires the co-operation of industry.

11. For all these and many other reasons, the Government believe that, although it would be wrong to put forward a rigid Plan for the economy, or to attempt to impose fixed targets on private industry, it would be equally wrong to rely on unco-ordinated policies to achieve the common objective of greater economic efficiency and stability. In the next few years the nation faces a difficult task, and it is essential to get the best use out of limited resources. It would be foolish to imagine that this could be achieved by all concerned operating in ignorance of the Government's and of each other's intentions and in ignorance of the expected development of the economy. As the economy becomes more highly developed, major decisions about future economic activity need increasingly to start from an assessment of the economic prospects over the years in which those decisions will take effect.

12. The controversy whether or not planning is desirable was always sterile. The question that has to be asked is not whether to plan but how to shape and correlate the plans of the public and private sectors, in what depth to plan, over what time-scale and in what detail. Whatever the answer, consultation between Government and both sides of industry, both on the economic assessment and

on the action to be taken on that assessment, will be essential to the success of the planning process. This document, therefore, seeks to set out, as a basis for consultation, a provisional assessment of the economic prospect up to 1972.

13. In putting forward this assessment, three points should be emphasised. First, as already indicated, it is highly provisional. Any assessment of the economic prospect over a period of even three or four years is subject to the uncertainties which arise both from unforeseeable events in the rest of the world and so outside the control of the Government, and from variations in the national and industrial response to difficulties and opportunities in the period under review. Both kinds of uncertainty, external and internal, increase as the prospect lengthens. The assessment needs to take account of this problem, and to steer a middle course between giving one single projection of the likely course of economic development, and presenting so many or so widely differing alternative projections that no worthwhile guidance can be derived from them.

14. Accordingly, those who look for a single figure or a single curve representing, say, the rate of growth of output will not find one in the general chapters of this document. (In chapter 7, for illustrative purposes, a single projection is taken for the industrial assessment.) In assessing the general economic prospect, a 'wedge' approach has been adopted; it shows a widening range of possible outturns from the current trends in the economy, according to whether performance merely continues as in recent years, is better, or is slightly worse. The area covered by this wedge thus represents what seems to be the most likely range of possibilities, having regard to the need to devote more resources to the balance of payments, to the rate of increase in productive potential and to the course of the trade cycle in the period under review. In the latter connection, it must be remembered that both the upper and lower lines of the wedge represent an average rate of growth over the years; they do not purport to project the actual curve or path of growth rates which, starting from the present upswing, are bound to vary from one year or even one quarter to another. Where there are uncertainties affecting even the upper and lower rates of growth, those uncertainties are specified and their implications for policy are discussed.

15. The second point of emphasis is that, notwithstanding all the uncertainties, the country's economic position and prospects are such that certain broad objectives can be laid down at the outset. At this stage these priorities are perhaps best expressed in general terms so that recognition of them, as the basis for discussion between Government and industry, is not obscured by doubts as to the best means of achieving them. They are :

First, the achievement of a *substantial surplus* in the balance of payments by means of a switch of resources from consumption into exports and import-saving so as to achieve a better balance of trade. This implies an increase in the ratio of exports to imports and of exports to total output and a decrease in the ratio of consumption to output.

Second (and partly to maintain the better trade balance), a steady improvement of the *competitive efficiency* of the economy by identifying areas where the use of resources is least efficient, by a concerted effort to improve output per head and, through this and the restraint of incomes, to keep down unit costs.

Third, a fuller utilisation of resources, including an improvement in the *regional balance* of the economy ; this involves a further and more marked reduction in the disparity between rates of unemployment in the Development Areas and the rest of the country.

16. It is only by achieving these three objectives that a *satisfactory rate of growth* of output will be obtained ; otherwise, the risk will remain that an undue increase in the rate of growth will be checked by untoward effects on the balance of payments and an unacceptable degree of inflation at home. This is not to revive old controversies as to whether an improvement in the overall growth rate should be the first consideration as the means of achieving improvements in the three objectives ; but it can only be achieved in parallel with them. The most urgent task is the achievement of a rapid improvement in the balance of payments by means of the switch of resources strategy laid down in the 1968 Budget.

17. The third point of emphasis follows from the second. It is clear from the most cursory inspection of the preceding paragraphs that the Government have an essential

part to play in the achievement of the three prime objectives. But Government action alone cannot command success ; it can only set the scene, create the climate, for action by both sides of industry without which the second objective in particular cannot be satisfactorily achieved. The Government are ultimately responsible for the efficiency of the nationalised industries – but even there, only indirectly, and for the most part in industries which provide the infrastructure for those private industries and services which have to confront foreign competition at home and abroad. The achievement of the three objectives will only be possible, therefore, through the efforts of the managements and unions of public and private industry, within the framework of economic strategy and policy set by the Government. This reinforces the theme with which this chapter began, namely, that effective consultation and co-operation between Government and both sides of industry are essential to the forward thinking and planning by which alone lasting economic recovery can be effectively achieved.

18. This document is accordingly intended to provide a broad basis for further consultations with both sides of industry that will take place this year, either directly or through the Economic Development Committees (EDCs). To that end it presents a view of the economic outlook for the next few years. It describes the Government's economic strategy, and the decisions already taken, but it is not a blue-print, and it does not presume to lay down an unalterable design for the economy. Instead, it attempts to indicate the economic problems that face the country, and the action that is needed to improve the performance of the economy. Since the first step should be for the Government to consult both sides of industry about the assessment of the outlook, this document is not a plan, but is part of the consultative planning process, i.e. the initial assessment of economic prospects indicated in (a) and (b) in paragraph 7 above.

19. The broad picture of the economic prospect and strategy is set out in chapter 2. Chapter 3 analyses the improvement in the trade balance required to meet the balance of payments objectives while chapter 4 considers the prospect for economic growth. Government decisions on public expenditure and the reasons for them are discussed in chapter 5. Chapter 6 brings the preceding

projections together and sets out illustrative figures in broad terms for the use of resources in the period to 1972. All the discussion in these chapters is in terms of broad aggregates.

20. Chapter 7 is concerned with the effect of broad changes in the economy on major groups of industries and with the prospect for the private manufacturing sector. The prospect for industries in the public sector is discussed in chapter 8. Chapter 9 is concerned with prospects in different regions of the country. Chapter 10 sets out a programme of discussion with industry in the next stage of the planning process.

21. The Government intend that there should be comprehensive and effective consultations with industry on a continuing basis and, where necessary, will strengthen the machinery for this purpose. There is a continuing need to identify those developments which are likely to lead to faster and more efficient future expansion, to examine to what extent industries are moving in that direction, to identify obstacles to more efficient development, and for action to be taken to improve performance. Work has already begun on comprehensive studies of the structure and problems of a number of important industries as a basis for working out the policies to improve performance. The results of these studies will from time to time be brought together and be discussed in the National Economic Development Council (NEDC). The broad outlook as seen by the Government will also be revised in the light of developments and of the industrial consultation. It is thus envisaged that this continuing process of consultative planning will lead to a series of documents setting out not only the views of the Government on the outlook but also the results of the collaborative study of the situation and, most important, the action that needs to be taken and is being taken to improve the situation.

Chapter 2—Economic Strategy and Prospect

The immediate aim of economic policy is to convert the balance of payments deficit into a surplus at an annual rate of the order of £500 million. After that it will be necessary to maintain a strong surplus for a number of years to repay the large debts that have been built up during six successive years of deficit, 1963–68; the cumulative deficit on the current and long-term capital account during these years has been more than £2,000 million. Until the nation's international debt and liquidity position has been generally improved, and the balance of payments has been made secure on a lasting basis, there will be little freedom of manoeuvre in internal or international policy and the prospect of maintaining a satisfactory growth rate will be poor. It remains the aim of the Government to join the European Communities. But the Six have so far failed to agree to open negotiations, and the present assessment does not take into account the implications of joining the Communities.

2. Major changes in the structure of the economy are necessary. A larger share of the nation's resources will have to be devoted to exports and to the displacement of imports. In other words the total export/import ratio of the growing economy must improve; and this can only be achieved if each individual industry and firm improves its own export/import ratio and thereby its balance of trade. To do this, the economy and industry must be more competitive in the future than in the past. More plant must be modernised, labour and capital used more efficiently, new technologies introduced on a wider scale, marketing at home and abroad improved, and management generally strengthened. Money costs must be kept down. Unless all this happens, the country will not achieve a lasting improvement in its economic performance.

3. Greater industrial efficiency and a stronger balance of payments were also the chief economic aims of the National Plan of 1965, and much of the action recommended in the "Check-list of Action" in that document remains as necessary now as it was then. In fact the

policies outlined in the National Plan have been continued and developed during the past three years by the Government, the NEDC, the EDCs and both sides of industry. Very considerable progress has been made by all concerned on nearly all the items summarised in the "Check-list of Action". This action is necessary to improve efficiency and competitiveness and to cope with the rapid change which is required as a result, not only of devaluation, but also of changes in the pattern of world markets, the lowering of trade barriers through the Kennedy Round, technological change, and changes in demand as the standard of living improves.

4. To these ends the redeployment of labour is being facilitated in a variety of ways. Industrial training and retraining is being speeded up through the Training Boards and Government Training Centres so as to increase the supply of skilled labour of the types required. A marked expansion of management education is in progress. Civil, as distinct from military, research and development has been increasing rapidly. Big advances are being made in standardisation, including metrication, and in quality and reliability. Rationalisation of the structure of industries is being pressed ahead in the private sector with the assistance of bodies such as the Industrial Reorganisation Corporation (IRC) and the Shipbuilding Industry Board and, in the public sector, in steel, transport, energy and the Post Office. There has been a welcome strengthening and merging of trade associations and trade unions. Greater efficiency and competitiveness is being achieved in many parts of the economy with the help of the advisory services of Government departments, the work of the EDCs, the British National Export Council and other bodies. The new system of investment grants has been designed to assist the manufacturing industries which must provide a large part of the country's exports and also help to displace imports and provide the plant and machinery needed to modernise the economy. Export promotion work has been expanded by the Board of Trade, and has been made a first charge on all Diplomatic Service Missions overseas; facilities for export credits and guarantees have been improved. The Industrial Expansion Act provides a new instrument at the disposal of the Government to help industry develop efficient and competitive production on a selective basis. At the same time the policy of productivity, prices and incomes has

been developed with the twin aims of encouraging productivity and keeping the growth of incomes in line with the growth of output and thus working towards more stable costs and prices and a more competitive economy. Important changes have been made in regional policies with the aim of evening out the rate of development and pressure of demand in different parts of the country. The Government have also taken a range of specific measures to improve the balance of payments, including cuts in defence expenditure overseas (see chapter 3).

Post-devaluation strategy

5. On 18 November 1967 the exchange rate of sterling was lowered by 14.3 per cent. This devaluation gave British exporters an improvement in their relative cost position vis-à-vis competitors of something approaching 10 per cent, after allowing for higher prices of imported materials, the abolition of the SEP outside Development Areas, and the ending of the export rebate, but before allowing for any extra labour costs. The relative improvement in costs given to most British producers competing with imports is somewhat larger, although the price advantage is less where overseas producers cut their prices. Using what empirical knowledge there is about the responsiveness of trade to changes in relative costs, prices and profitability, it would seem that the improvement in the country's competitive position provided by devaluation, coupled with energetic action to grasp the new opportunities, should be adequate over the years to bring about an improvement in the balance of payments of the order required, although the timing of the effects of devaluation is bound to be extremely uncertain. Over the ten to fifteen years to 1967 the United Kingdom's labour costs per unit of output in manufacturing rose on average about one per cent a year faster than those of its main competitors. Devaluation has provided a very substantial offset to this. It should also be remembered that the improvement required in the balance of payments, although large in absolute terms, is a small percentage of the turnover in the balance of payments, which is now over £20,000 million a year.

6. The United Kingdom will, however, be able to achieve this improvement only if there is a further period of great restraint on home demand and continuing vigilance on the movement of costs relative to those of competing countries. There are two reasons for this.

7. *First*, great restraint on home demand is needed – especially in the present period of transition from deficit to surplus – to ensure that sufficient productive resources are available for additional exports, the displacement of imports and increased investment. Otherwise businesses will be both unable and unwilling to take full advantage of the new export and import-saving opportunities that have been created by devaluation.

8. The switch of resources into the balance of payments that is required is not mainly the effect of devaluation. It was required in any case in order to move from deficit into surplus. It is equivalent to about 3 per cent of the total output of goods and services or roughly one year's normal growth. This should not be unduly difficult, given time. Most other advanced countries have for a number of years been devoting several percentage points less of their total output to personal consumption than the United Kingdom has, and this country should be able to follow their example. The achievement of a switch of resources of this magnitude in a couple of years does, however, raise very considerable problems.

9. The Government have taken steps to restrain both personal consumption and public expenditure. The heavy increases in taxation in the 1968 Budget were intended to restrain the growth of personal consumption, and these have been reinforced by the renewed credit squeeze, the continuing high level of interest rates, the rise in prices resulting from devaluation, and more recently – in November 1968 – by hire-purchase restrictions, the regulator and reinforced controls on consumer credit. The cuts in public expenditure programmes which were made at the time of devaluation and in January 1968 were designed to complement the measures to restrain personal spending. The Government believe that these measures are adequate to set free the resources required for improving the balance of payments. But if further action is necessary it will be taken.

10. *Secondly*, there must be continuing restraint on incomes and prices to ensure that the new cost advantage gained by devaluation is maintained and not frittered away. The object must be to keep the increase in incomes more in line with the expected growth of total output. The nation cannot afford automatic increases in personal

incomes since they raise costs and consumption, both of which have adverse effects on the balance of payments. On the prices side, devaluation and increased taxation have made many price increases unavoidable. Every effort should be made, however, to absorb increases in costs by greater efficiency.

11. Until the end of 1969 the Government have powers to delay pay or price increases for up to twelve months, subject to the process of reference to the National Board for Prices and Incomes. The Government have said that they hope that there will be no necessity for a renewal of these statutory powers when they expire, although a final decision on this can only be taken in the light of the economic situation at the time and taking into account in particular whether durable progress has been made with the balance of payments.

12. Devaluation, the cuts in public expenditure programmes, the increases in taxation and the intensification of the productivity, prices and incomes policy were all necessary conditions of the required turn-round in the balance of payments from deficit to surplus. But they have to be complemented by action on the industrial front if the country is to take full advantage of the new opportunities that have been opened up.

13. The Government for their part will intensify the industrial, manpower and regional policies summarised in paragraph 4 above. In particular, they will be exploring in detail, with selected industries and firms, ways of speeding the necessary switch of resources into the balance of payments, where appropriate by co-operative action between Government and industry. As stated in chapter 1, a major purpose of this document is to provide a starting point for these consultations by setting out both the broad national problems and tasks and what they appear to involve for particular industries.

14. It is now in the individual and collective interest of businesses, and industry generally, to take advantage of the very considerable opportunities that have been created for exporting – by vigorous marketing, by carrying out any necessary investment, by modification of design to meet foreign needs, by ensuring speedy delivery and in other ways. There are two reasons for doing so. First, many new

profitable markets have been opened up, both at home and abroad. Secondly, the rather longer-term outlook for the home market will depend greatly on the success of individual industries in expanding exports and displacing imports. As indicated in chapter 3, if they succeed to the full extent required, it should be possible for the economy as a whole – and, after a year or so, the home market – to expand faster and more steadily than in the past. If they fail, not only will valuable opportunities have been missed of competing with foreign producers; the consequent failure of the country's balance of payments to improve sufficiently will also necessitate a slowing down in the rate of growth generally.

Need for a continuing surplus

15. As stated in paragraph 1 of this chapter, the most urgent task is to achieve a substantial surplus on the balance of payments. Given a resolute pursuit of the policies described in the preceding paragraphs, and barring a marked deterioration in international trading and monetary conditions, this should be possible, although the exact timing of the improvement in the balance of payments is inevitably uncertain.

16. The next task will be to maintain this surplus for a period of years until the country's international debt and liquidity position has been substantially improved. This means preventing a subsequent deterioration in the balance of payments, except for temporary fluctuations. In the past fifteen years, apart from cyclical fluctuations, there has been a steadily worsening trend in the balance of payments. In the future this must be arrested.

17. The fundamental changes in the Government's overseas policy should make a major contribution to this end. A large part of the adverse trend in the balance of payments in the past can be attributed to the growth of net Government expenditure abroad. From now on, however, Government expenditure overseas should be broadly stabilised in money terms, and be reduced in real terms. Apart from this, much will depend on the success of three types of action already referred to; on export promotion and import displacement; on industrial efficiency generally; and on keeping down costs.

18. The improvement which is required in export and import trends is substantial but, given the intensification

of the action indicated in paragraphs 13–14 above, coupled with continued determination by the Government to keep their overseas expenditure under control, there are good prospects of being able to prevent a renewed worsening of the balance of payments after the required rate of surplus has been reached and after advantage has been taken of the improvement in relative costs provided by devaluation.

19. The more confident industry becomes that a renewed worsening in the balance of payments can be avoided, the more likely this result is to be achieved. For industry will have fewer fears that the competitive advantage gained by devaluation will be frittered away and that renewed balance of payments difficulties will usher in a further stop-go cycle. In so far as these fears can be removed – and one of the objectives of the planning process is to secure a more rational basis on which to form a judgment – the resulting extra efforts to develop exports and displace imports and to carry out the necessary investment for this purpose, will make it all the more likely that the confidence proves well-founded.

Prospects of growth to 1972

20. This chapter has so far discussed the prospects for growth and the balance of payments in general terms. As indicated in chapter 1, however, it is a necessary part of the planning process to give a more quantitative assessment of possible economic developments up to 1972. For this purpose projections have been made in the form of a wedge, that is, a range of possibilities has been given.

21. In attempting to establish a range of rates at which the economy might grow over the years ahead, it is useful at the start to distinguish two main factors that may limit the rate of growth. First, the limiting factor may be what is sometimes called the growth of productive potential, coupled with the extent to which there is slack to be taken up in the economy. The rate of growth of productive potential is broadly the rate at which the national product could grow, at a given pressure of demand, given only the physical limitations of manpower, capital and productivity – and assuming that there are no balance of payments difficulties.

22. The second factor that could limit growth is a failure to secure the necessary improvement in the balance of

payments. This could result from factors beyond the country's control such as a markedly unfavourable development of world trade. Alternatively it could result from a failure to seize all the opportunities provided by devaluation, from an excessive rise in incomes and costs relative to those of other competitors, or from a failure to restrain adequately the rise in personal consumption. The Government might then be forced to take action to limit the rate of growth below that of which the economy is physically capable.

23. These two possible limiting factors are inter-related. If the balance of payments outlook improved, and people became increasingly confident that it was unlikely to be a factor limiting expansion over, say, the next five years or so, the growth of productive potential would probably be increased. For industry, both management and workers, would then push ahead more confidently with plans for investment and increased efficiency, undeterred by the prospects of stop-go cycles induced by recurring balance of payments crises.

24. During the period 1960–66, *productive potential* was probably growing at about 3.3 per cent a year; but as the working population was growing by 0.7 per cent a year, the underlying growth of output per head was about 2.6 per cent a year. Since there is not expected to be any increase in the labour force (at a constant pressure of demand) up to 1972, a projection of past experience would give a growth of productive potential of about 2.6 per cent a year. Chapter 4 suggests, however, that there may be a smaller fall in weekly hours of work in the future than in the past (though holidays may continue to lengthen) and that changes in the composition of the labour force may be more favourable than in the past. A rough allowance for these two factors would bring the expected growth of productive potential up to nearly 3 per cent a year. Allowing for a reduction in unemployment from its present level, this would give an increase in output significantly above 3 per cent a year up to 1972. There are also possibilities both of a faster and of a slower increase in productivity; these are considered in chapter 4.

25. Chapter 3 discusses the *balance of payments* possibilities with output growing at various rates. The outcome is very uncertain but the following illustrative figures give

some indication of the likely magnitudes involved. Assuming some degree of import displacement as a result of devaluation, the increase in the volume of exports required between 1967 and 1972 to achieve the necessary balance of payments surplus and to support, for example, an increase in output of $3\frac{1}{4}$ per cent a year would be about $5\frac{3}{4}$ per cent a year over the period as a whole. These figures compare with a trend growth in the volume of exports over the past ten years of about 3 per cent a year; but if allowance is made for the country's much smaller dependence now on the more slowly-growing markets – by projecting past trends market by market – this would give a growth in the volume of exports of about 4 per cent a year. It is clear that exports have to rise very substantially faster than in the past; but a faster growth should be obtainable, given the effects of devaluation that have still to be felt. Assuming that a substantial surplus can be achieved, a strong increase in the volume of exports will still be required to prevent economic growth leading to a renewed worsening in the balance of payments; the increase will not, however, be as large as that required to move from deficit to surplus.

26. Having regard to possible trends both in productive potential and the balance of payments, it seems reasonable to take a range of possibilities from something under 3 per cent to something in the region of 4 per cent for the average annual rate of growth of output to 1972, although the actual outcome could be outside these limits. Whether it is nearer the upper or the lower limit will depend partly on world economic developments, but also to a large extent on the actions and sense of purpose of both sides of industry, which will determine both the growth of productivity and the speed, extent and durability of the improvement in the balance of payments.

27. It is possible that growth will be relatively slow while the balance of payments is being put right over the next year or so. After that there should be a possibility of faster growth provided the measures taken to increase industrial efficiency lead to a faster growth of productive potential and at the same time the balance of payments surplus can be maintained. If there were a renewed worsening in the balance of payments, the rate of growth would have to be slowed down. But the Government will, of course, be reviewing prospects year by year and the range of possi-

bilities that will open up will depend on actual performance.

28. Most of the illustrative calculations in this document are based on a rate of growth of about $3\frac{1}{4}$ per cent a year but the document also discusses the implications of faster or slower growth. It must be emphasised that the figure of $3\frac{1}{4}$ per cent a year is not a forecast of what will happen ; the outcome could be worse, but the Government believe that, if all concerned pursue the right policies with determination, it could be much better, and the aim must certainly be to do better.

29. Growth at the upper end of the range – around 4 per cent a year or more – would represent very considerable success both in increasing productivity and in improving the balance of payments. It will be possible only if there is a substantial increase in investment – to increase both capacity and productivity – and greater efficiency in the use of both capital and labour and if industry exploits to the full the opportunities offered by devaluation in world and domestic markets.

30. Growth at the lower end of the range – 3 per cent a year or less – could result from a failure of the balance of payments to improve sufficiently, because money incomes rose too much in relation to output or for other reasons. This would prevent a full exploitation of the physical potentialities of expansion, and unemployment would remain at a relatively high level. Alternatively, it might reflect a poor productivity performance which prevented a larger expansion of output because of shortage of resources ; possible reasons might be a faster fall in hours of work than at present seems likely (not offset by a faster growth in output per man-hour), greater interruptions due to industrial unrest, insufficient investment, or a failure on the part of management to exploit the new opportunities provided by devaluation.

Employment

31. A major aim of the Government, both on economic and on social grounds, is to cut unemployment to the lowest possible level consistent with the maintenance of a proper balance, both industrially and regionally, between the supply of and demand for labour, and the maintenance of full employment on a secure and lasting basis. The

speed and extent of the reduction in unemployment must in part depend on the speed and extent of the improvement made in the balance of payments. The sooner that export and import-saving opportunities are grasped, the faster unemployment will fall. This in turn depends upon management taking full advantage of the new opportunities which devaluation has opened up; and on a major effort by all concerned, in particular management and unions, to make the productivity, prices and incomes policy work so that the country's costs and prices are competitive in world markets both now and in the years ahead. Meanwhile, as indicated in paragraphs 7–9 above, essential to the whole economic strategy is a switch of demand from overseas to domestic goods and from consumption to exports and investment; and a switch of demand must be accompanied by a switch of the necessary resources to meet it. If domestic demand were allowed to impede the growth of exports and import-saving, then whatever temporary benefits there might be to employment would soon be outweighed by an unsatisfactory balance of payments and the inevitable return to the stop-go policies of the past.

32. Full employment and the level of demand on which it depends must also, however, be more evenly spread than it has been in the past. It is necessary to avoid a situation in which there is excessive pressure of demand in certain parts of the country alongside much higher unemployment in others and lower utilisation of resources. Training programmes should be designed to ensure a better balance of skills in industry so that severe shortages of certain skills do not coincide with considerable unemployment among those possessing different ones. There are, within full employment, bound to be fluctuations in the employment level and some temporary unemployment in the course of industrial restructuring. The Government's regional policies and the provision they have made for redundancy, earnings-related benefits and retraining are all designed to help deal with these problems. There may be more to be done, both by the Government and by industry, in these fields; and this is one reason why continuing consultations between Government and both sides of industry are necessary.

33. An important implication of this discussion of unemployment is that it is no longer true in the present

situation, as many still believe, that a faster growth of productivity will simply lead to more unemployment, or that by producing more output at lower cost we may, taking the economy as a whole, 'work ourselves out of our jobs'. Indeed the contrary is true. With more output at lower cost the country could achieve a faster growth of exports and displace more imports and thus reach a higher level of activity and employment without damage to the balance of payments. In this situation Government action to hold back domestic consumption should not be seen as 'deflation', i.e. an attempt to improve the balance of payments by bringing down the whole level of activity, but as a necessary means of switching resources to meet the right kind of demand. With world trade in manufactured goods at a record level and still growing and with so much domestic spending being used for imports, there is no lack of demand for British goods, so long as industry can keep and exploit the cost advantage gained by devaluation. Unemployment can be reduced simply by industry's competitive success in meeting this demand. On the other hand, if output is unnecessarily reduced, whether through unjustifiable strike action or by outdated methods and restrictive practices on either side of industry, or if costs are raised because any increase in productivity is outstripped by increases in earnings, or if automatic increases in incomes (at any level) raise personal consumption to a higher level than the nation can afford and lead to a diversion of output, then not enough output will be available on competitive terms to secure the necessary improvement in the balance of trade. Any failure, through these causes, to achieve the balance of payments objective would be bound, whatever else were done, to lead to reduced economic activity and a loss of employment.

Use of resources

34. The uses to which the increase in the total output of goods and services might be put, assuming various rates of growth, are discussed in chapter 6. While the necessary surplus on the balance of payments is being achieved, the transfer of resources to exports and import displacement will absorb a large part of the increase in total output. A further large part is needed for an increase in private investment (which was at a cyclically low level in 1967), particularly investment related to extra exports and import displacement. Stockbuilding will also have to be increased from the cyclically low 1967 level (though not necessarily

from the much higher level at which it seems to have been running in the middle of 1968).

35. After allowing for these various claims on resources, the additional resources available for the public sector and for personal consumption taken together will be very limited until the necessary balance of payments surplus is obtained. Public sector expenditure *as a whole*, at constant prices, is planned to increase at a very moderate rate during the next few years. One reason for this slow growth is the expected levelling off – at a high level – of investment by the nationalised industries. *Public consumption* is also at present planned to grow at a very moderate rate; this reflects a significant increase in civil expenditure offset to a considerable extent by falling defence expenditure. The only major sector of public expenditure on goods and services that is expected to grow quite rapidly is *public service investment* (roads, schools, hospitals, etc.).

36. Despite the slow growth of public sector expenditure, the needs of the balance of payments, of private investment and of stockbuilding are so great that very little increase, if any, in personal consumption will be possible during the next year or so. The stage at which personal consumption can be permitted to rise again will depend on the speed of improvement in the balance of payments. When the necessary surplus has been achieved, and no more additional resources have to be devoted to the balance of payments, it should be possible for personal consumption to rise again broadly in line with the total output of goods and services.

37. The rate of growth of total output will, as has been seen, depend on the nation's success in the twin tasks of increasing productive potential and improving the balance of payments. If, for example, total output grew by less than 3 per cent a year, a downward revision of public expenditure programmes would have to be considered. If, on the other hand, the economy succeeded in getting near to the higher growth path discussed earlier, it would be for consideration how the extra resources available for personal and collective consumption should be divided between the two.

Progress since devaluation

38. During the year following devaluation it looks as though the total output of goods and services rose by

about 4 per cent and the increase in productivity has been encouraging. Personal consumption rose very sharply in the first quarter of 1968 but fell back in the second quarter after the Budget. It returned to a level more normal in relation to consumers' purchasing power in the third quarter but showed signs of continuing to rise. The tightening of hire-purchase terms on 1 November 1968 and the measures announced on 22 November 1968 were designed to check the growth of consumption in order to facilitate the switch of resources into the balance of payments. Public sector expenditure on goods and services on current and capital account has risen more slowly than total output. Private investment showed little change in the first half of 1968 but intentions inquiries and other indicators suggest that a significant rise may be under way.

39. By the third quarter of 1968 the volume of exports of goods and services was showing a rise relatively to imports – the first sign of the required shift of resources – but the balance of payments has improved less quickly than had been hoped. Exports have done better than expected but imports, which rose steeply in sterling terms after devaluation, have remained high. This reflects in part special factors and perhaps exceptional stockbuilding of imports though this is hard to detect in the aggregate figures. The new import deposit scheme, together with the new restraints on domestic demand, will act to reduce imports in the coming period.

40. The *balance of payments* as a whole remained in heavy deficit in the first half of 1968. In the third quarter there was a surplus of about £100 million, but this result was assisted by special factors such as a heavy net inflow of private capital. The second half of the year should thus have been much better than the first half.

41. The *visible trade deficit* of about £45 million a month on average in the fourth quarter of 1968 is still far from the trade surplus averaging about £25 million a month that is required to achieve the necessary surplus in the total balance of payments. A fast improvement is essential in 1969. A very substantial part of the increase in output from now on must be devoted to exports and import substitution; this will require efforts by all concerned to gain markets at home and abroad and to keep down costs

by keeping the growth of money incomes in line with the growth of output. The rise in private industrial investment will absorb a further part of the increase in production. Given these prior demands, there is a clear need for strict limitations on consumption, whether in the public or the private sector.

Chapter 3—Balance of Payments

The action taken by the Government to curb the net outflow of private long-term capital and to reduce their own defence commitments is already helping to improve the balance of payments. In addition a rising surplus can be expected on invisible transactions such as interest, profits and dividends, financial and other services. But to achieve a balance of payments surplus of the order of £500 million a year, it will also be necessary to secure a massive improvement in the net balance of trade. In order to indicate the scale of that improvement, this chapter begins by assessing the prospect for non-trade items in the balance of payments.

Long-term capital and invisibles

2. From 1952 to 1960 there was a net outflow of *private long-term capital* of about £125 million a year on average. (This is the amount by which outward investment by the United Kingdom exceeded investment by other countries in the United Kingdom.) Outward investment was checked in 1961, but in 1964 the net outflow rose to some £250 million. Following the introduction of new restrictive measures, in 1965 the net outflow fell back to about £120 million. In 1966, 1967 and the first three-quarters of 1968, the position fluctuated, but on the whole was one of near-balance. Over the next few years, restraint of the outflow of private capital will continue to be necessary, but inward investment may be less than in recent years, especially in oil refineries. It is prudent to allow for a small net outflow of private capital in 1972.

3. The Government's *defence expenditure* overseas will be lower in 1972 than in 1967 as a result of the decision to withdraw British forces from their stations in the Far East and the Persian Gulf by the end of 1971. In terms of real resources, the cut will be very large. Devaluation and the general increase in prices have led to an increase in the *sterling* cost of defence expenditure in countries which have not devalued, but even so there will be a substantial net saving on the balance of payments. (The reductions in the defence programme are discussed in chapter 5.)

4. A continuing small rise must be expected in the sterling cost of the Government's *civil expenditure* overseas, partly as a result of devaluation. The largest item is aid: i.e., grants and loans to developing countries. Although the main aid programme is being kept within the ceiling of £205 million (fixed before devaluation), there will be some additions to expenditure on aid as the United Kingdom (like other member countries) is to increase its contribution to the International Development Association, and is also to provide compensatory aid to Malaya and Singapore and food aid under the Kennedy Round cereals agreement. Other civil expenditure overseas covers subscriptions to international organisations, representational and information services, and also the commercial and consular facilities that are of direct benefit to the export effort. Apart from the effect of devaluation, the sterling cost of this expenditure is also likely to rise during the next few years as a result of the world-wide upward trend in costs and prices. In addition, loans from the Export-Import Bank, obtained to finance purchases of United States military aircraft, will be being repaid in 1972.

5. The United Kingdom traditionally has a large net credit on its account for *other invisible transactions* (which include the provision of insurance and other financial services of the City of London, receipts and payments of interest, profits and dividends, shipping, civil aviation, travel, etc.) *. Although the size of the credit has fluctuated from year to year, there has been a strong upward trend: from 1957/58 to 1966/67 the net credit rose by £180 million and at an average rate of over $3\frac{1}{2}$ per cent a year.

6. There are three main reasons for expecting the upward trend to continue. First, with increasing opportunities in an expanding world economy, it seems likely that the country's net income from the provision of financial services will continue to rise. Secondly, it would be reasonable to expect a continuing increase in the country's net earnings on private overseas investments as a result both of rising incomes, prices and profits overseas, and of continuing new investment financed by overseas borrowing, or by re-investment of profits. The earnings of other countries on their investments in the United Kingdom are

* As defined here, other invisible transactions *exclude* Government overseas expenditure referred to in paragraphs 3 and 4 above. They *include* interest paid (and received) on inter-government loans and on overseas holdings of United Kingdom government stock, etc., and charges on drawings from the International Monetary Fund.

also likely to increase but, as the United Kingdom's income is already larger than its payments on this account, a rise in both should increase the absolute size of the balance in the United Kingdom's favour. Thirdly, there is the effect of devaluation in automatically increasing the sterling value of most overseas earnings in countries which have not devalued. The sterling cost of payments denominated in foreign currencies also rises but here again, as earnings exceed payments for invisible transactions, the balance will be in the United Kingdom's favour. In addition, there should continue to be a modest surplus on shipping and civil aviation.

7. On the basis of this discussion, rough projections for 1972 have been made for private long-term capital, Government expenditure overseas and other invisible transactions; they are set out in table 3.1 below.

Non-trade items in the balance of payments
Table 3.1 £ million, current prices

	1967 Actual	1972 Projected
Private long-term capital (net)	— 29	— 50
Government (capital and current) ⁽¹⁾	— 510	— 600
of which :		
Defence (net)	— 256	— 180
Ex-Im Bank loans (net) ⁽²⁾	+ 76	— 60
Other (net)	— 330	— 360
Other invisible transactions (net) ⁽³⁾	+ 686	+ 900
Total	+ 147	+ 250

(1) In the conventional classification, e.g. 'United Kingdom Balance of Payments 1968', Government items are distributed between invisible and capital accounts.

(2) To help finance payments for United States military aircraft (£98 million in 1967, nil in 1972).

(3) For definition, see paragraph 5 above and footnote.

Required balance of trade

8. Present projections suggest that invisible and long-term capital transactions, taken together, might contribute a net surplus of some £250 million to the balance of payments by 1972. As this figure is the difference between very large totals of both credits and debits — the total turn-over on non-trade transactions is now over £8,000 million a year — it is sensible to think in terms of a range of say £200—£300 million as the contribution from these transactions to the balance of payments surplus. A total surplus of

£500 million thus seems likely to need a net surplus on visible trade of the order of £200—£300 million a year. In view of the considerable uncertainties, the Government consider that it would be better to plan on the basis of the higher figure. The rest of this chapter therefore considers the implications for imports and exports of alternative rates of economic growth on the prudent assumption that the country should aim at a trade surplus of £300 million a year.

Prospect for imports

9. Although there is no fixed ratio of total imports to total output and expenditure, imports are related to consumer spending, to the need for fuel and materials from abroad for manufacturing, to the need for certain specialised capital equipment for investment and to the competitiveness of domestic industry. By taking account of these factors, it is therefore possible to make a rough assessment of the increase in imports to 1972 which would correspond with different rates of growth of the domestic economy.

10. Food imports rose in 1968 (partly owing to the poor harvest and the delays due to the 1967 dock strike) but they are unlikely to rise further in the next few years because of the expansion of food production in this country and the relatively slow increase in food consumption. Fuel imports, however, are likely to go on rising as the total demand for energy expands, partly because of the rising number of motor vehicles; natural gas and nuclear power will, however, reduce foreign exchange costs to the extent that they displace oil. Imports of basic materials are likely to rise with industrial output at much the same relative rate as in the past.

11. It is much harder to assess the prospect for imports of manufactured goods, which now account for nearly half the total import bill. In the past decade the ratio of these imports to total output and expenditure has been increasing rapidly. In the projections to 1972 which follow, it is assumed that the ratio will continue to increase but at a slower rate than in the recent past*. There are two reasons for this—fairly optimistic—assumption. The first is devaluation; the second is the scope for competitive home products to displace imports of manufactured goods.

* It is also assumed that the high level of imports in 1968 included non-recurrent factors.

12. By reducing the price of British goods relatively to foreign goods, devaluation should enable domestic manufacturers to provide a larger share of the various requirements of an expanding home market. To achieve the required trade surplus, however, a greater degree of import displacement may be required than that arising from the price advantage conferred by devaluation.

13. The new import deposit scheme will provide an immediate, though temporary, incentive to the displacement of imports. The continuing measures to this end include the provision to EDCs, under Section 3 of the 1967 Finance Act, of more detailed information than has hitherto been available about just what is imported. They also include the arranging, through the auspices of EDCs, of meetings between manufacturers and purchasers of consumer goods and between manufacturers and users of machinery. In addition, the more general measures which the Government have taken to stimulate the efficiency and competitiveness of British industry will help to save imports as well as to promote exports. These measures include the introduction of investment grants, the establishment of the IRC and the taking of powers under the Industrial Expansion Act to assist particular investment projects.

Growth and the balance of trade

14. The following paragraphs set out three possible combinations of output, imports and exports which would provide a trade surplus of about £300 million a year. For the rate of growth of output, the same three alternatives have been taken as in chapter 4. For imports, the assumptions are as indicated in paragraphs 10 and 11 above. For exports the figure is given as a requirement, that is, the increase which would be needed both to cover the growth in imports and to provide a trade surplus of about £300 million a year.

15. *Basic case*—The increase in total output is taken as $3\frac{1}{4}$ per cent a year. The corresponding increase in the volume of imports would be about 4 per cent a year. Over the five-year period 1967–72 the increases would be 18 per cent in output and 22 per cent in imports. Table 3.2 shows how the main groups of imports might contribute to this increase.

Imports

Table 3.2

£ million, 1964 prices

	1964 Actual	1967 Actual	1968 Actual	1972 Projected (1)	1967-72 Average annual percentage increase
Food, drink and tobacco . .	1,774	1,780	1,830	1,830	0.6
Crude materials (including oils and fats) . .	1,118	1,060	1,170	1,200	2.5
Mineral fuels . .	583	750	800	880	3.3
Manufactured goods ⁽²⁾ . .	2,160	2,570	2,910	3,590	6.9
Miscellaneous . .	62	90	90	100	2.1
Total ⁽²⁾ . .	5,697	6,250	6,800	7,600	4.0

(1) On the basis of an increase in output of $3\frac{1}{4}$ per cent a year from 1967 to 1972.

(2) Excluding United States aircraft.

To finance these imports and achieve the required surplus, the volume of exports would need to rise by some 32 per cent over the period 1967 to 1972 (after adjusting the 1967 base for the effect of the dock strikes). This would represent an average annual increase of about $5\frac{3}{4}$ per cent. In fact, the increase could be expected to be faster in the early part of the period while devaluation was having its major impact. (The feasibility of this rate of increase for exports is discussed in paragraphs 18-25 below.)

16. *Higher growth*—If productivity and production rose faster than has been assumed in the basic case, additional imports of industrial materials would be needed to sustain the higher output. There would be an increase in the total demand for consumer goods and capital goods but a fair prospect that a higher proportion of that demand would be met from domestic production (since higher productivity should make British goods more competitive with imports). Altogether the increase in the volume of imports might be raised to about $4\frac{3}{4}$ per cent a year. The volume of exports would then need to increase at an average rate of about $6\frac{3}{4}$ per cent a year. The faster growth of exports should be attainable, provided the faster rate of increase in productivity was combined with a strict control of costs, which would make export prices more

competitive and improve the United Kingdom's share performance in world trade. Other benefits, harder to quantify but nevertheless real, such as faster innovation and the stimulus to better marketing and design, would also react favourably on exports. The invisible balance might benefit. Higher productivity should also make it possible to switch more resources into the export drive.

17. *Lower growth*—The third possibility is that output might rise at a slower rate than in the basic case so that fewer imports of industrial materials would be needed. The increase in the volume of imports might slow down to about $3\frac{3}{4}$ per cent a year. The required trade surplus might then be attained with an increase in exports of about $5\frac{1}{4}$ per cent a year. But it would be more difficult to get this increase: lower growth would tend to raise costs per unit of output, which would make it harder to sell United Kingdom exports in overseas markets and to compete with imports; adverse reactions on investment, innovation and invisible earnings could also be expected.

Prospect for exports

18. The last section of this chapter has set out the exports that would be required to achieve the trade surplus at different levels of production and imports. What is the chance of their being obtained at a time when major changes will be taking place in the pattern of world trade and payments? (The United States is also seeking to improve its balance of payments on current account.) One way to estimate the prospective increase in British exports is on the basis of the prospective development of world trade and of the United Kingdom's share in that trade.

19. Although *world trade* cannot be predicted with any accuracy, certain key features can be identified. Over the decade 1957–67, world industrial production increased at an average rate of about $5\frac{1}{2}$ per cent a year. The volume of world trade in manufactures was growing rather faster—at an average rate of about 8 per cent a year. Trade increased faster than production partly because of increasing international specialisation and the diversification of consumer spending which comes as living standards rise. There are prospects of continued growth in the industrial countries while the primary producers should benefit from a growing demand for their raw materials in those countries. On balance, in the period to

1972 it would seem reasonable to expect world trade to expand at an average rate not far below that of the past decade.

20. One factor which contributed to the expansion of international trade during the last ten years, was the progressive removal of tariff barriers between countries within the European Economic Community and the European Free Trade Association. That process has now been completed but the tariff reductions of the Kennedy Round, covering a wider range of countries, are to be introduced gradually throughout the period 1968 to 1972. The United Kingdom seeks to encourage such action to increase world trade and to foster moves to increase world liquidity. Although in the exceptional circumstances that arose in 1968 a scheme of import deposits has been introduced in this country, that scheme is a temporary measure. The Government do not intend to depart from the objective of liberalizing world trade which has been the basis of their commercial policy.

21. The volume of United Kingdom exports of manufactures increased at an average rate of about 3 per cent a year during the past decade. This was slower than the rate of growth of world trade in manufactures and the United Kingdom's share of that trade declined from 18 per cent to 12 per cent. Several factors were responsible for this loss of share, such as the concentration of British exports on traditional but slow-growing markets in the Commonwealth, lack of competitiveness in some industries in design, delivery dates and marketing. But the loss of share was at least partly a result of the adverse movement in United Kingdom costs compared with those of its main competitors. The substantial improvement in the United Kingdom's competitive cost position brought about by devaluation, together with the more rigorous prices and incomes policy and other measures to improve efficiency and competitiveness, should help to moderate the loss of share in the future and thus enable the country to gain a greater benefit from the continuing expansion of world trade.

22. Apart from price-cutting by overseas competitors, the average net cost advantage to British industry resulting from devaluation is estimated at approaching 10 per cent, after allowing for the withdrawal of the export rebate, the

withdrawal of the SEP outside the Development Areas and the higher cost of imported materials. The actual effect on the relative prices of exports in foreign exchange terms will vary according to the way this cost advantage is distributed between price cuts, increased profits on exports and greater promotional expenditure. The full response of export volumes to devaluation emerges only gradually, as foreign buyers take time to respond to lower prices or to increased promotion, and as exporters take time to expand production of the right type and to build up their overseas marketing organisations. There are also substantial time-lags between receipt of orders and the shipment of finished goods, especially for major items of capital equipment. By 1972, however, a very substantial increase in exports should have taken place. Although a precise forecast cannot be made, this expansion should be sufficient to make the achievement of a £300 million trade surplus reasonably likely, provided that there is a steady growth of world trade and that the increased exports are accompanied by an adequate degree of import displacement.

23. An alternative method of estimating the prospect for exports is to start with a projection of past trends and then to add a further increase for the effect of devaluation. In the decade 1957–67 the volume of British exports was growing at an average rate of about 3 per cent a year. By the end of the period, the faster-growing markets, particularly in North America and Western Europe, accounted for a much larger share of United Kingdom exports than at the beginning. In 1957, 43 per cent of British exports went to Western Europe, North America and Japan, while 42 per cent went to the countries of the Overseas Sterling Area. Provisional figures for 1968 suggest that by then the proportion going to the industrialised markets had risen to 57 per cent while that to the Sterling Area had fallen to 28 per cent. Moreover, within the Sterling Area, exports to the four main developed countries of Australia, New Zealand, South Africa and the Irish Republic had become of relatively greater importance in the total of exports to the Area.

24. In the next few years growth in demand for imports in the industrialised countries can be expected to continue at a faster rate than in the less-developed countries of the

world. The United Kingdom is now more favourably placed, because of the steady reorientation of its export markets over the past ten years, to take advantage of this expected faster growth in demand in the industrialised countries. Thus even without the competitive advantage of devaluation, the volume of British exports could have been expected to grow rather faster in future than in the past; the average rate of growth might rise to about 4 per cent a year compared with that of about 3 per cent a year in the past decade. The improvement in the terms and scope of export credit facilities and in other measures to promote exports should also help to establish a higher rate of growth in the future.

25. It was estimated in paragraphs 15–17 that an increase in the volume of exports of some $5\frac{1}{4}$ to $6\frac{3}{4}$ per cent a year would be needed to achieve the required trade surplus, the exact rate depending on the growth of productivity and output. In order to bridge the gap between that rate and the 4 per cent that might be expected from the development of world trade, devaluation needs to bring about an *additional* increase of slightly under 2 to 3 per cent a year (or 10 to 15 per cent over five years). This is not an excessive increase in the volume of exports to expect from an improvement approaching 10 per cent in relative costs. Provided industry can build on the initial cost advantage and exploit market opportunities to the full, the required increase in exports should be within the country's grasp.

Summary

26. The starting point of this discussion was that, in view of the likely balance on capital and invisible accounts, a visible trade surplus of some £300 million in current prices might be required to achieve the desired payments surplus of £500 million. Paragraphs 15–17 indicated some of the combinations of export expansion and import-saving by which this trade surplus might be attained. The combination which will eventually result is subject to many uncertainties about domestic productivity, employment, output and import propensities, and also about world trade and the international monetary system. Much will depend on the management of the economy and on how well costs are kept under control. But the over-riding factor will be the extent to which industry succeeds in seizing the new opportunities provided by devaluation.

Chapter 4—Output, Employment and Productivity

The last chapter showed various combinations of export expansion and import saving which would be needed to obtain a substantial surplus on visible trade. It concluded that, on certain assumptions, which include the continuing expansion of world trade, the necessary surplus should be obtainable. This chapter proceeds on the same assumptions to consider the scope for increasing the total output of goods and services.

2. In the past the growth of output has been uneven. Rapid growth has been achieved during short periods when slack in the economy was being taken up; they have alternated with periods of slower growth when unemployment and surplus capacity were usually rising. The cycle for the total economy is shown in chart 4.1 and for manufacturing alone in chart 4.2. To form a view about the future it is first necessary to separate the cyclical movements from the underlying trend of growth of *productive potential*. This is a measure of the rate at which output could grow without any change in the pressure of demand on resources (i.e. without taking up or creating slack in the economy). The growth of productive potential depends partly on the increase in the stock of capital and in the working population, partly on changes in hours and methods of work, partly on advances in technology and in training and education, partly on improvements in organisation and in relations between labour and management. A rough figure can be put on some of these factors, such as the size and composition of the working population; but others, such as better working practices, cannot be measured directly. The following discussion is concerned with those factors which can be measured; this does not mean that they are the only important ones.

3. It seems probable that during the period 1960 to 1966 the underlying growth of productive potential was on average about 3.3 per cent a year. About 0.7 per cent of this growth came from the increase in the total working population and 2.6 per cent came from an increase in

Chart 4.1

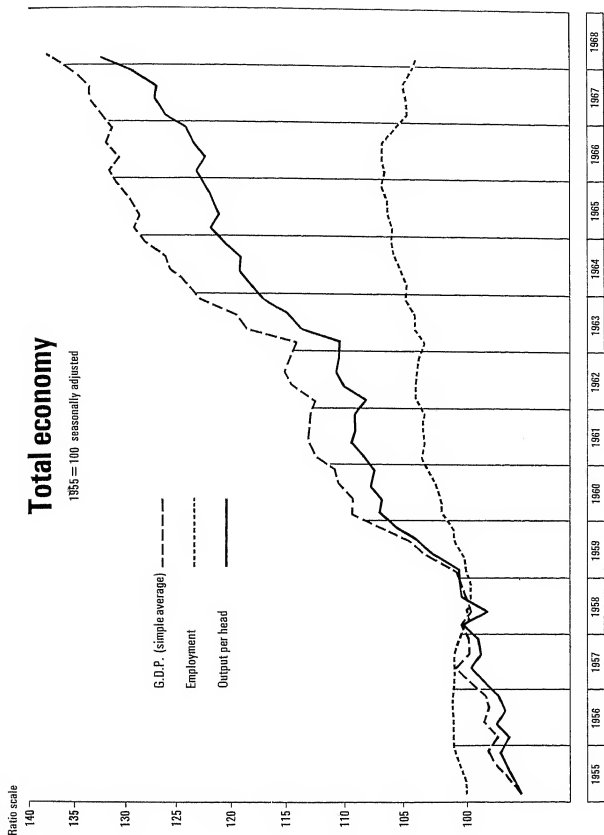
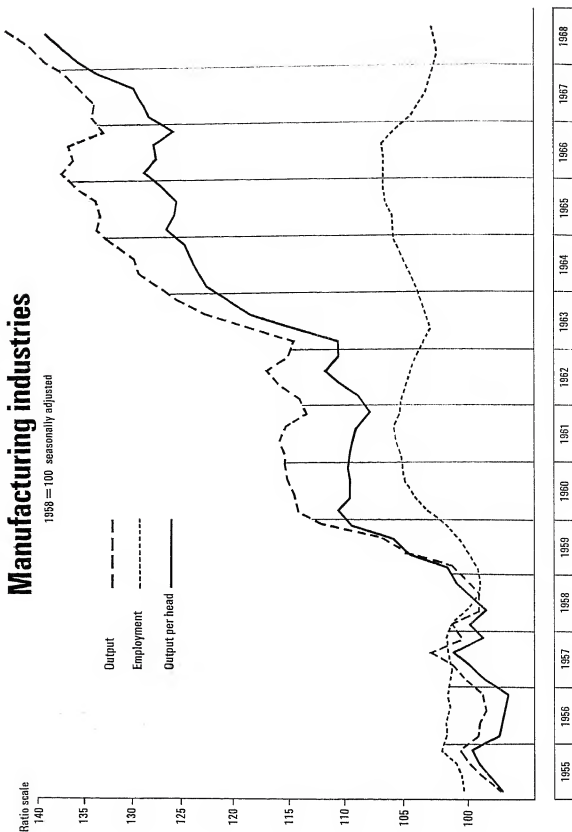


Chart 4.2



output per man, i.e. productivity. These rates cannot be projected forward as they stand since they reflect past trends in the number of school-leavers, in hours of work and in holidays, which are likely to be different in the future.

Working population

4. One important difference is that up to 1972 the working population is likely to fall gradually instead of rising. Between 1960 and 1966 a large number of school-leavers joined the labour force and there was an excess of immigrants over emigrants: in consequence the working population rose by an average of some 0.7 per cent a year. This rate of increase slowed down towards the end of that period and came to a halt in 1967. From 1968 to 1972 the working population is expected to fall by about 3,000 a year. The main reasons for this change of trend are the relatively low birth-rate in the early 1950s and the fact that in recent years the balance of migration has changed and emigrants now exceed immigrants. Past and prospective changes in the working population are shown in table 4.1.

Changes in the working population⁽¹⁾ 1960–72
Table 4.1

	Average annual increase					
	1960–66 Actual		1966–68 Actual		1968–72 Projected	
	'000s	%	'000s	%	'000s	%
Total	187	0.7	13	—	—3	—
Aged under 20	64	2.3	—195	—6.5	—59	—2.3
Aged 20 and over . . .	123	0.6	208	0.9	56	0.2
of which:						
Males	28	0.2	131	0.9	32	0.2
Females	95	1.2	77	1.0	24	0.3

¹⁾ At constant pressure of demand.

5. The future age and sex composition of the working population will also differ from that of 1960–66. Instead of a large increase in younger workers, there will now be a substantial fall. The number of adult workers will go on increasing, though at a slower rate. The number of women is also likely to rise much more slowly than in the past. These changes will mean that those industries which formerly relied on women and juvenile workers may in future find it more difficult to obtain their manpower. In

those parts of the country such as the London area, where there is a high demand for women and juvenile workers, industries will need to adapt their employment policies and production techniques to meet the changing supply of manpower.

6. As the working population may be falling slightly up to 1972, the future growth of productive potential will depend wholly on the growth in output per head. The change in composition of the working population may, however, improve the trend in output per head. This is because output per head differs among different groups of workers: the productivity of very young workers is below that of the average adult and the productivity of married women as a group is also below the average (as so many of them work part-time). As indicated, the number of young workers will be falling while the number of women is likely to rise at a slower rate than in the past.

Hours and holidays

7. The trend in hours of work and in length of holidays must also be taken into account in estimating the future growth of productivity. After little change in normal hours of work throughout the 1950s, there was a sharp reduction in 1960–62 and in 1964–66 as most industries adopted a 40–41 hour working week. These reductions led to some increase in overtime, as shown in chart 4.3. There has also been a striking increase in the length of holidays for manual workers, as shown in table 4.2.

Holiday entitlement of manual workers

Table 4.2

Percentages

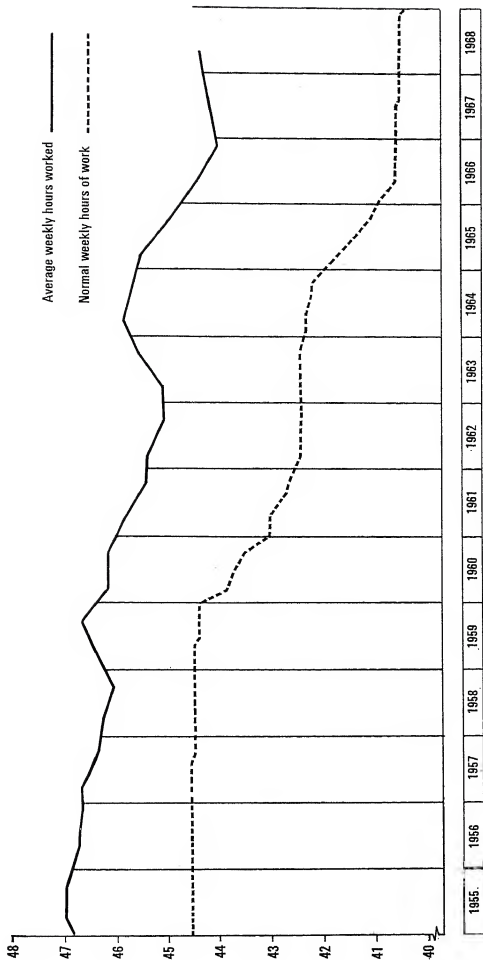
	2 weeks ⁽¹⁾	More than 2 weeks ⁽¹⁾	3 weeks ⁽¹⁾	Extra days for long service ⁽²⁾
March 1962	97	3	..	10
March 1965	75	25	..	16
March 1968	56	44	10	27

(1) Basic annual holidays; in addition workers are normally entitled to payment or days in lieu of public or statutory holidays, generally six a year.

(2) Per cent of manual workers who could qualify for extra days by long service; the figures for 1962 and 1965 are estimates.

Chart 4.3

Movements in normal weekly hours of work and average weekly hours worked⁽¹⁾ — all manual workers



(1) From and including October 1967 includes (a) dock workers previously on daily or half-daily engagements and (b) postmen.

8. These changes in hours and holidays of manual workers reduced the trend of output per man during 1961–66, although the shorter working week was probably accompanied by a rise in output per hour. Allowing for this factor, it is estimated that, if hours and holidays had not changed, the growth of output per man would have been 0.3 per cent a year above the figure of 2.6 per cent a year given in paragraph 3 above. In other words, from 1961–66, the underlying rate of increase in output per man-hour was about 2.9 per cent a year.

9. In looking ahead to 1972 it seems unlikely that hours will fall anything like as sharply as in the recent past. The 40-hour week has long been a traditional objective of the British trade union movement and nowhere in Western Europe is the normal working week for manual workers generally below 40 hours. On the other hand there will probably be a further extension of paid holidays. The period of service qualifying individuals for additional days of holiday has been gradually reduced so that those who get additional days usually do so after three or five years' service instead of after ten or twelve years. Moreover there is the example of Western Europe where holidays are more generous than in this country. It therefore seems necessary to allow for the possibility that, by 1972, most workers will get three weeks' paid holiday compared with the present average of two weeks and two days. Combining this with some slight further fall in hours of work, it seems reasonable to allow for a fall in output per head on these counts of some 0.2 per cent a year from 1968 to 1972.

10. These assumptions about hours and holidays are hypothetical. They may need to be changed after the position in individual industries has been discussed with those concerned. They may also need to be modified in the light of developments in productivity, prices and incomes. In particular there may be an extension of productivity agreements involving a reduction in normal overtime; provided that such a reduction in hours is fully offset by increased productivity, it will not alter the projection of output per man; though it will affect the projection of output per man-hour.

Output per man-hour

11. Having allowed for the effect of changes in the working population and in hours and holidays, it is now

necessary to consider the underlying trend in output per man-hour. This task is complicated by the cyclical fluctuation in output, employment and productivity which has occurred since the middle of 1966. Following the July measures of that year, there was a remarkably sharp fall in the level of employment; and since then unemployment has remained at a higher level than would have been expected from the past relationship between output and employment. The important question is whether this divergence is a result of an increase in the underlying trend of productivity.

12. If the underlying trend *has* been rising, the rate of increase of output per man-hour estimated for 1961–66 would be too low as an estimate of the future trend. It is probable that the underlying growth of productivity has been higher in the 1960s than in the previous decades and output per head appears to have risen more during the recent period of slow growth in output (first quarter 1965 to third quarter 1967) than it did in the comparable phases of past cycles. This is particularly marked in manufacturing. But the cycles are not exactly alike. Although it is possible that the underlying rate of increase in productivity has recently improved, more evidence is needed before a change of trend can be established.

13. A second possibility is that the shake-out of labour following the July 1966 measures represented a 'once-for-all' gain in productivity, owing perhaps to a lasting reappraisal of manpower requirements by employers, reinforced by SET, redundancy payments and so on. If this were correct, one could not expect productivity to grow at a higher rate in the next few years than in the past. As a result of the recent changes, however, the present *level* of productivity would be higher than that given by a straight projection of the estimated trend for 1961–66. Thus the once-for-all gain would raise the starting-point for a projection for the future and the benefit would be consolidated.

14. A third possibility is that the recent peculiar behaviour of employment is a purely cyclical phenomenon, though exaggerated by past standards. If this were so, in future productivity might be expected to return to the original trend. This would imply that some time during the next few years the apparent gains in productivity associated

with the shake-out of manpower would be offset by a corresponding shake-in. The evidence from the movements of industrial output and employment does not lend much support to this view. Output began to increase sharply from the third quarter of 1967, but so far there has been little sign of the exaggeratedly quick response in employment which would be expected if the cyclical explanation were correct. At the same time, the figures for employment in the index of production industries (which account for almost half the total) in the third quarter of 1968, and the sharp decline in total unemployment (seasonally adjusted) since August 1968, suggest that the fall in employment may have come to an end.

15. The interpretation of recent experience is further complicated by the anomalous movements of vacancies and unemployment. Recently vacancies for male workers have remained a good deal higher than would have been expected from the level of unemployment. In the second half of 1968, for instance, unemployment was over a hundred thousand higher than in the second half of 1963, but vacancies (instead of being lower) were on average nearly twenty thousand higher than in the earlier period. The rise in unemployment relative to vacancies between these periods is not confined to particular regions, occupations or industries.

16. The Confederation of British Industry (CBI) surveys show a sharp rise from mid-1967 in the proportion of firms reporting *skilled* labour shortage as a potential constraint on output. In October 1968, this proportion was about the same as in mid-1964, although the level of unemployment in manufacturing was some fifty thousand higher.

17. Thus the fall in employment since the third quarter of 1966 may have been partly the result of a shedding of 'unsuitable' labour rather than of a general improvement in manpower productivity (which would be reflected in lower vacancies as well as in higher unemployment).

18. Overtime working in *manufacturing* has been increasing fairly rapidly since the beginning of 1967, even during periods when unemployment was rising (such as the first three-quarters of 1967). Short-time working is now at the low level of 1965 and early 1966. Part of the

increase in output per head in manufacturing may therefore be the result of fewer people working longer hours to an abnormal extent.

19. On balance the evidence seems insufficient to take as a planning assumption a continuing increase in productivity up to 1972 at a rate substantially higher than in 1961–66. The conflicting indicators of changes in 1967 and 1968 certainly make it hard to use the unemployment figures alone as evidence of a continuing change in the underlying trend—but this must be kept under constant review. It therefore seems sensible to assume that the underlying rate of growth of output per man-hour will continue at 3.1 per cent a year from now on, but that the productivity gains associated with the shake-out are retained. The alternatives of a faster increase in productivity and of a slower increase will also be examined.

Productive potential to 1972

20. It is now possible to bring together the factors discussed above and to make a projection for the growth of productive potential to 1972. This is done in table 4.3.

Growth of productive potential

Table 4.3

	Average annual percentage change	
	1961–66 Actual	1968–72 Projected
Underlying output per man-hour ⁽¹⁾	3.1	3.1
Adjustment for age/sex composition of working population	–0.2	0
Output per man-hour	2.9	3.1
Adjustment for change in hours and holidays per year	–0.3	–0.2
Output per head	2.6	2.9
Working population	0.7	0
Productive potential	3.3	2.9

(1) Estimate for 1961–66 is derived by working back from the (cyclically adjusted) figure of output per head (2.6). For 1968–72, the process is reversed.

21. As indicated in paragraph 2 above, there is not sufficient evidence on which to measure the contribution to the growth of productive potential which is made by investment, industrial reorganisation, better training, more

flexible working practices and a host of other factors. The projection of the past trend in output per man-hour implies that changes in these factors will affect the growth of productivity and productive potential in the future in the same way as they have in the past. But if the policies initiated by the Government are successful, as the regional balance of activity improves, and provided industry exploits to the full the opportunities offered by devaluation, there is a reasonable chance that future performance will be better than that of the past. On the other hand, there may be a further move to reduce hours of work, or the changes expected in the composition of the working population may not have the relatively favourable effect on productivity which was assumed above. Moreover, with a static working population some of the former gains from economies of scale may not be obtainable.

22. It is therefore desirable to consider the implications of other rates of growth of productive potential besides that of 2.9 per cent a year shown in table 4.3. One possibility is that the rate of increase in productivity will accelerate from 1968 until 1970 and will then reach a rate about $\frac{1}{2}$ per cent higher than in the basic case, i.e. about $3\frac{1}{2}$ per cent a year. The alternative possibility is that the growth of output per head (rather than output per man-hour) will continue at the rate of the recent past; this would imply a rate of increase in productive potential of only about $2\frac{1}{2}$ per cent a year.

Prospect for output to 1972

23. The total output of goods and services can grow faster or slower than productive potential according to whether the margin of unemployment and unused capacity is reduced or increased. A reduction from the 1968 level of unemployment (2.3 per cent on average) is an important aim of Government policy. There should thus be extra gains to output from the taking up of slack. Making allowance for this, an increase in productive potential of 2.9 per cent a year is taken, in deriving the basic case in this assessment, as leading to an increase in total output averaging some $3\frac{1}{4}$ per cent a year from 1968 to 1972. The figure could be higher or lower. Both the speed with which the slack is taken up, and thus the precise rate of growth in each year, and the extent to which the slack is taken up (and employment is increased) by the end of the period, will depend in considerable measure on the progress with the balance of payments

and the degree of success in maintaining an adequate surplus. With higher productivity, the increase in output might average around 4 per cent a year (instead of $3\frac{1}{4}$ per cent in the basic case); with lower productivity, the increase in output could be just under 3 per cent a year.

Chapter 5—Public Expenditure

To ensure a strong balance of payments and a competitive and growing economy, enough resources must be devoted to exports and import saving and to productive investment in both the private and public sectors. What determines the level of the rest of public expenditure is, therefore, essentially a judgment of the relationship between such expenditure and private consumption, in which growing needs, both social and economic, to be met by public provision are weighed against the desire for a rising level of personal consumption. In present circumstances, while the massive switch in resources to the balance of payments is taking place, this judgment has to take account of the need for severe restraint on both public and personal consumption.

2. In deciding the total of public expenditure and in shaping public expenditure programmes, implied claims on the balance of payments, on real resources and on the labour force need to be assessed and fitted into the plan as a whole. Current and capital expenditure on goods make claims on domestic production and imports; current expenditure on services consists largely of wages and salaries and implies claims on the nation's manpower, including large groups of skilled workers. On the other hand 'transfer payments', such as social security benefits, have the effect of giving to some groups within the community—the aged, the children and the unemployed—a larger call on resources than they would have had otherwise; but, unlike current expenditure on services, these payments do not withdraw workers from the productive labour force. Overseas spending, whether military or civil, makes a direct and important impact on the balance of payments.

3. Taxable capacity in its widest aspects has also to be considered. Both the level and the distribution of taxation, as well as other means of financing, have important economic implications. The level of taxation required at any time depends not only on the level of public expendi-

ture but also on the balance of supply and demand in the economy as a whole.

4. Decisions on different public expenditure programmes take different times to take effect. Some—such as road and hospital construction—involve a period of many years from inception to completion. Others—like the levels of social security benefits—can be adjusted within a matter of months. Most lie somewhere between the two. Any major programme acquires a momentum of its own (especially where it is strongly affected by, for instance, shifts in the age-structure of the population) and to reshape or redirect it takes time. This is why the fitting of public expenditure into the economy is a matter of forward planning.

5. Not all forms of public expenditure are equally predictable and new forms of expenditure may become necessary which cannot always be foreseen. For these reasons an unallocated contingency reserve is included in the planned total of public expenditure. Because of the difficulty in securing flexibility in some of the programmes which have to be planned ahead, it is sensible not to decide sooner than is necessary about those elements that respond quickly to decisions.

6. The last three years have seen the scope of public expenditure widened by new policies in the economic field: for instance, investment grants in place of investment allowances, and the regional employment premium, to promote industrial efficiency as a means of helping to correct the balance of payments. At the same time the development of some of the existing programmes, particularly roads and social services, has continued rapidly.

7. Following devaluation, as part of the measures to ensure its success, the rate of growth of public expenditure as previously planned was reduced by £300 million in 1968/69 and by over £400 million in 1969/70*. Between 1968/69 and 1969/70 the increase in public expenditure in real terms is to be limited to only 1 per cent. For 1970/71, the Government plan to hold the increase over 1969/70 in the total of specific programmes of public expenditure to about 2 per cent in real terms, holding a

* Public Expenditure in 1968/69 and 1969/70, Cmnd. 3515, January 1968.

further 1 per cent in reserve for contingencies. For the rest of the period beyond 1970/71 which is covered by this document, the Government's planning assumption is that the growth in public expenditure would be broadly in line with the growth of resources as a whole.

8. How the general considerations described in the preceding paragraphs apply in practice may be illustrated from the prospects for three major programmes, defence, education and health, which between them cover more than one-third of public expenditure. One, education, falls mainly in the local government field. Defence policy has been adjusted to produce a rundown in expenditure; education and health face growing needs.

Defence

9. Defence could defeat its own purpose of securing vital national interests if it were to place too great a burden on the economy. In 1964 the Government recognised that the defence programme as it then stood, which was expected to take about 7 per cent of the total output of goods and services, would impose an unacceptable burden on the economy, including that part of industry which is technologically most advanced, and on the balance of payments.

10. On taking office, the Government therefore began a thorough review. Part I of the Statement on Defence Estimates (Cmd. 2901), published in February 1966, announced the first stage of this review. It was designed to hold the 1969/70 Defence Budget to £2,000 million at 1964 prices in order both to release scarce, high quality, technical manpower and industrial capacity for exports and domestic investment, and also to frame a new defence posture for the 1970s. Later stages of the review took account of the political, economic and military developments, and led to the publication in July 1968 of the Supplementary Statement on Defence Policy (Cmd. 3701). This described in detail the results of the later stages of the review, which is bringing economic, foreign and defence policy into harmony.

11. The new policy will enable reductions to be achieved in the men employed in the United Kingdom services, many of whom have trade or technical skills of particular value to industry. Compared with April 1967 there will be reductions in the strength of the Armed Forces by the

financial year 1973/74 of rather more than 75,000 United Kingdom officers and men and of some 30,000 United Kingdom civilian employees. The Government are examining very carefully the regional impact of these reductions with the aim of ensuring that undue difficulties are not created in particular areas. By the same date there will also be reductions of 20,000 Gurkhas and locally-enlisted personnel and 50,000 locally-employed civilians. Taking together all servicemen and civilian employees, the reductions planned for the period up to 1973/74 represent a total contraction of nearly one-quarter since the beginning of the Defence Review in 1965.

12. Defence expenditure will be reduced year by year from the 1968/69 total of £2,276 million* down to a level currently forecast for 1972/73 at a little over £2,000 million at 1968 prices. This implies that the proportion of the total output devoted to defence will be reduced from about 7 per cent, as in the original 1964 programme, to below 5 per cent in 1972/73.

13. These economies will bring special benefit to the important field of research and development. A cut of over £30 million will be made in the defence research and development programme for 1970/71; it will affect development projects as well as research done in Government establishments and in industry, and will free qualified engineers, scientists and technicians, as well as other resources, for civil work.

14. In parallel, there will be large cuts in the cost of maintaining Forces overseas. Despite the fact that devaluation automatically increased the sterling cost of overseas expenditure on defence, the United Kingdom's local defence expenditure in areas other than Germany will be cut by one-third by 1970/71, and by a further third in 1972/73 compared with the 1967 rate of expenditure.

Education

15. The education service provides a good example of a programme that has to be planned well in advance. In Great Britain the numbers in maintained primary (including special) schools will rise by 4.95 per cent from 1968/69 to 5.7 million in 1970/71 and in secondary schools by 6.1 per cent to 3.3 million. Present plans

* See footnote (1) to table 5.1 on page 54.

provide for numbers in higher education to increase by 7.5 per cent to over 450,000. The requirements for educational expenditure over the planning period are to a great extent determined by larger age-groups, mainly in schools; by preparations (mainly buildings) for raising the statutory leaving age in 1973; and by larger proportions of the age-groups voluntarily staying in the educational system beyond the statutory age. In England and Wales a special programme of school building starts to the value of £105 million is planned to meet the demand for places following the raising of the school leaving age. This programme will be spread over the three years 1970/71, 1971/72 and 1972/73.

16. The Government announced in 1967 the allocation of extra resources over the following two years for school building in socially deprived areas. These will be supplemented by further assistance, under the Urban Programme announced in July 1968, for the provision of more nursery education. In addition, special emphasis is being placed on certain areas of further and higher education where rapid development is needed in order to meet the country's demand for the qualified manpower essential to economic development. Thus high-level courses of various types for managers and executives from industry and commerce are provided by the business schools at London and Manchester and by other universities and colleges; and new courses in institutions of further education are starting to train the systems analysts and other skilled staff needed in growing numbers for work with computers.

17. It is a further aim of Government policy to increase the number of teachers in schools in order to improve staffing ratios and to make other improvements in school organisation. On present plans it is hoped that the target ratios set by the National Advisory Council on the Training and Supply of Teachers in their Ninth Report* will be achieved by 1976/77. In England and Wales the total number of teachers, including the full-time equivalent of part-time teachers, is expected to increase from 317,000 in 1968 to 365,000 in 1971. By 1970/71 the number of teachers in Scotland is likely to be about 45,000.

18. The men and women who staff the education service are the main call that it makes on real national resources. Present policies and trends imply that education in the

* HMSO, 1965.

public sector (including the universities) will employ nearly one million* people in Great Britain by 1970/71. Over half will be teachers and lecturers; the remainder includes a wide variety of occupations, such as local authority administrators and inspectors, school meals staff, caretakers and cleaners. Further, nearly half of those graduating from higher education go back into the education service. This emphasises the importance of the measures which the Government are taking or encouraging to secure the best use of manpower and other resources. For example, some of the colleges of education, by re-arranging the normal academic year and by other means, are providing courses for more students than their teaching facilities were originally designed to take. Other developments include the growing use of non-teaching staff in schools, and of closed-circuit television, while the influence of the work of the National Council for Educational Technology, and of research such as the large project being undertaken by the Nuffield Foundation on 'Resources for Learning', should stimulate new ways of using manpower and materials in schools.

19. In Northern Ireland much the same factors operate. School enrolments are expected to rise from 326,000 in January 1968 to about 346,000 in January 1971, and there will be an increased demand for places in further and higher education. The number of teachers in schools is likely to rise from about 13,000 in January 1968 to over 14,100 by January 1971.

Health

20. Between 1967 and 1972 the total population of Great Britain is forecast to increase by 2.6 per cent, but the number of people over 65 and of children under 10—the groups which make the heaviest demands on the health and welfare services—are expected to rise by 8.4 per cent and 4.7 per cent respectively.

21. About half of expenditure on health and welfare goes on the ordinary day-to-day running of the nation's hospital services. This covers the pay of the doctors, nurses, technicians and all who are necessary to the complex life of a hospital, the drugs, appliances, equipment and food which the patients need and the engineering, maintenance and other services to keep the hospitals

* Part-timers calculated on the basis of full-time equivalents.

running. There is a growing demand for hospital services. Between 1957 and 1967 the number of in-patient cases treated increased on average by about $2\frac{3}{4}$ per cent a year ; if this trend continues about 15 per cent more patients will be treated in 1972 than in 1967. Despite a more intensive use of resources, this rising demand inevitably raises expenditure on the service. An increase in expenditure will also be needed to make available the benefits of new medical developments, to provide better standards of care and to meet the running costs of the new hospitals now being built.

22. The replacement or modernisation of hospital buildings is the most evident need. Nearly half the hospitals inherited by the National Health Service were built in the last century and many are over 100 years old ; many are also ill-designed and badly-sited for modern needs. Planning is proceeding on the assumption that the programme will continue to grow to match the movement and increase in population and, more significantly, to tackle progressively the problem of obsolescence. In the longer term the replacement or modernisation of existing hospitals will absorb four-fifths of the programmes if they are maintained at their existing levels.

23. In 1966, family doctors accepted a new contract of service which recognises the heavy work-load more fully and flexibly. Following this, the employment of ancillary staff has risen substantially and the number of family doctors has stopped falling. The rapidly growing demand for health centres illustrates the importance attached to accommodation and supporting facilities. With an increasing output from the medical schools, the number of doctors giving service should rise during the next few years. It is estimated that the number of dentists in the general dental service will go up by only about 100 a year on average. The progressive improvement in techniques and equipment and the organisation of practices should, however, lead to a greater increase in the capacity to meet the rising demand for dental treatment.

24. The growing use of new and expensive drugs means a rising bill for the pharmaceutical services. The underlying upward trend must be expected to persist despite constant attention to the need to stabilize and reduce the price of individual drugs.

25. Because the health services make heavy demands for money for their large building programmes, intense efforts are being made to obtain the maximum value for money. Cost allowances for the major elements in any hospital project (covering roughly two-thirds of the costs of each project) have been held steady in recent years, and attention is now being directed to the remaining elements of cost. By planning on the basis of intensive use and of care in the community, new and redeveloped hospital projects are being kept to the minimum size necessary to provide a good standard of medical and nursing care. The work of standardising building and rationalising ranges of equipment is being carried forward but without prejudice to the need for experiment and for adaptability to changing needs.

26. The importance of the community care provided through local authority health and welfare services is being increasingly recognised and expenditure has risen substantially in recent years. The economic need to restrain the growth of total expenditure by local authorities may moderate the rate of increase in the immediate future. While it will be largely for local authorities themselves to judge how their resources should be allocated to the various health and welfare services, it is expected that the emphasis on community care will continue. In addition to the expanding health centre programme there is increasing emphasis on services provided in the home, e.g. home nursing and domestic help, and on a range of services for the general welfare of the elderly and handicapped. Homes for the elderly—needed both to provide for the growing numbers and to replace very old and unsuitable buildings—will, as hitherto, absorb about half the capital expenditure and a substantial part of both capital and current expenditure.

27. The health and welfare services at present employ the full-time equivalent of about 820,000 people. The number is increasing as the services develop: in recent years the average annual rise has been rather over 3 per cent and the demand is not abating. Increasing emphasis is being given to raising the productivity of labour and economising in manpower by better organisation and management and the greater use of computers and other mechanical and automatic equipment; the expansion of programmes for further training of staff is a priority task.

28. In Northern Ireland, although the differences in the age-structure of the population will result in differences of emphasis, there is again a growing demand for services. The hospital capital development plan envisaged that £20 million at 1963 prices would be spent between March 1964 and 1970.

Public expenditure⁽¹⁾ by function

Table 5.1

£ million

	1967/68 outturn at current prices	1968/69 forecast outturn at current prices	1969/70	1970/71
			estimates at 1969/70 Estimates prices	
Main programmes:				
Defence budget	2,231	2,268 ⁽²⁾	2,266	2,281
Housing	1,055	1,090	1,090	1,126
Education ⁽³⁾	2,123	2,295	2,385	2,474
Health and welfare ⁽⁴⁾	1,662	1,785	1,876	1,958
Social security ⁽⁵⁾	2,906	3,313	3,438	3,528
Total	9,977	10,751	11,055	11,367
Other programmes	4,603	5,119	5,305	5,394
Contingency reserve	—	—	75	165
Total	14,580	15,870	16,435	16,926

⁽¹⁾ Excludes capital expenditure by nationalised industries, the broadcasting authorities, and the Covent Garden Market Authority, and debt interest.

⁽²⁾ The figures in this column are of the forecast outturn and are calculated on the basis of current prices. So arrived at, the figure for the defence budget is somewhat lower than that used earlier for the 1968 Estimates and included in paragraph 12 of this chapter.

⁽³⁾ Includes local libraries and museums.

⁽⁴⁾ Includes welfare foods.

⁽⁵⁾ Estimated on the basis of existing rates of benefit—see paragraph 4 above.

Public expenditure⁽¹⁾ economic analysis

Table 5.2

£ million

	1967/68 outturn at current prices	1968/69 ⁽²⁾ forecast outturn at current prices
Current expenditure :		
Current expenditure on goods and services .	7,194	7,671
Subsidies	834	864
Current grants to personal sector	3,481	3,927
Current grants abroad	183	171
Total	11,692	12,633
Capital expenditure :		
Gross domestic fixed capital formation	2,138	2,340
Increase in value of stocks	35	30
Capital grants to private sector	524	671
Net lending to private sector	76	92
Other capital expenditure	115	104
Total	2,888	3,237
Total public expenditure	14,580	15,870

(1) See footnote (1) to table 5.1 above.

(2) Figures for later years will be published in due course.

Chapter 6—Use of Resources

This chapter considers the prospective changes in the various demands on resources taking account of the preceding discussion of visible trade and of public expenditure. Table 6.1 shows a possible distribution of resources on the assumption that output grows by an average of $3\frac{1}{4}$ per cent a year over the period 1967 to 1972. The implications of alternative growth rates are discussed briefly in paragraphs 13 and 14.

2. A substantial part of the increase in output must be devoted to an improvement in the *balance of trade*. The proportion will be much larger in the early part of the period until the necessary surplus has been achieved.

3. In 1967 *investment* in fixed capital amounted to £7,145 million or 15.3 per cent of total final expenditure. This was a substantial improvement over the position five years earlier, when its share had been only 13.6 per cent. But it is still inadequate. Most of the United Kingdom's main competitors devote a considerably higher proportion of their resources to investing in future needs and any permanent improvement in this country's rate of growth or in its competitive performance will require a sustained expansion of investment.

4. The increasing share of investment has been entirely in the public sector. The share of private investment in the total use of resources in 1967 was the same as in 1962. Within the private sector, the share of investment in non-manufacturing industries has risen considerably but investment in manufacturing industry has lagged badly.

5. These events are in sharp contrast to the expectations put forward in the 1965 National Plan. In the course of its preparation, industrialists were asked what investments they would be undertaking in the context of a 25 per cent increase in total output by 1970. From their replies the Government concluded that manufacturing investment would have to rise by 50 per cent between 1964 and 1970 if the Plan's target were to be met. There was in fact a 13

per cent increase between 1964 and 1966, followed by a 5 per cent fall in 1967 under the impact of the deflationary measures of 1966.

6. In the light of this experience, any forecasts of the future course of investment must be tentative. Although much serious research has been done into the relations between investment, output and productivity, it has not as yet revealed any relationships that would enable accurate assessments to be made. So the figures shown in table 6.1 for the private sector can be no more than a rough guide. They assume that the relationship of manufacturing investment to total output will continue roughly as in the past. The estimates for the public sector are firmer as they are largely based on detailed programmes prepared by Departments and nationalised industries, as part of the regular annual survey of public expenditure programmes over the next five years. On these figures, the rise in total fixed investment between 1967 and 1972 might be 20 to 25 per cent. But the rise would be very unevenly spread.

7. The level of total investment by the nationalised industries, which has grown considerably in the past 5 years, should fall slightly over the next two years and then begin to rise again. In 1972 the total (excluding steel) is likely to be no higher than in 1967. Details of the industries' investment programmes are given in chapter 8. After taking into account the rest of public sector investment (where investment in the main social services will continue to grow rapidly) the increase for the public sector as a whole will still only be of the order of about 15 per cent. Private investment, on the other hand, could grow by 30–40 per cent (according to the growth in total output) and the growth in manufacturing investment should be of about the same order. Unless room were left for increases of at least this order of magnitude, there would be serious danger of subsequent economic growth being inhibited.

8. Investment in *stockbuilding* was abnormally low in 1967; allowance must be made for a return to a more normal relationship to output.

9. No firm figures for *public consumption* exist beyond 1970/71. But a projection to 1972 of present policies and likely trends in the next year or so suggests that the average rate of increase in public consumption in the

period 1967 to 1972 may be only about $1\frac{1}{2}$ per cent a year in real terms. The cuts in defence spending make a major contribution to the achievement of this low rate of growth. Civil consumption may rise by some $3\frac{1}{2}$ to 4 per cent a year. This restraint on public consumption will contribute substantially to the freeing of resources for the balance of trade and for productive investment.

10. Over the whole period 1967 to 1972 *personal consumption* should be able to rise at an annual rate of 2.4 per cent in the basic case. This is less fast than over the past ten years when personal consumption increased by 3.0 per cent a year. But it should be possible to achieve at least as fast a rate of growth in personal consumption as in the past, once the switch of resources to the balance of payments has been achieved. The timing will depend on the improvement in the balance of trade and on the speed at which extra resources become available, either through the growth in productivity or through the bringing into use of spare resources. The past rate of growth of personal consumption was achieved at the expense of the balance of payments: the price of this has now to be paid in the restriction on the growth of personal consumption in the early part of the period up to 1972 while the balance of payments is rectified.

11. Whether the allocation of resources to personal consumption will be of this order will depend on the development in other sectors—the switch of resources to the balance of trade, the increase in investment, the growth in public sector expenditure—and on the rate of growth of output.

12. The implications for the balance of the economy and particularly the ease with which it will be possible to restrain consumption in this way is dependent on the level of public and private savings. The projection of savings a number of years ahead is subject to a great deal of uncertainty and depends on the development of the various components of money incomes and consequent price movements, which in turn must take account of the effect of incomes and prices policy. If savings fall below their expected level, other compensating measures may have to be taken.

13. If the annual growth in output between 1967 and 1972 were 4 per cent rather than $3\frac{1}{4}$ per cent, there would

be an extra £1,800 million of domestic resources available by 1972. About one-third of this extra amount would be pre-empted by the higher investment and stockbuilding necessary to sustain the increase and it would also, of course, still be necessary to ensure that sufficient resources were allocated to maintain the visible trade surplus. The rest would be available for personal and public consumption and other forms of investment. If the whole of it were to be used for personal consumption, this would be able to grow at 0.8 per cent a year faster than in the case illustrated in table 6.1 below, i.e. 3.2 per cent a year. If the extra resources were allocated proportionately between personal consumption on the one hand and public consumption and investment on the other, personal consumption would be able to grow at 3 per cent a year. As in the basic case, the rate of increase would be higher in the latter part of the period than in the first part.

14. If, on the other hand, the annual growth in output were lower than in the basic case, although fewer resources would be taken up by investment and stockbuilding, there would need to be a continued severe restraint on both public and private consumption.

Possible use of resources 1967-72 (basic case)

Table 6.1

	1967	1967-72	Increase 1967-72
	£ million 1967 prices	Average annual percentage increase	£ million 1967 prices
GDP at market prices	39,093	3.2	6,610
Balance of trade in goods and services ⁽¹⁾	-568	—	920
Investment			
Private industries and services	3,056	5.3	890
Nationalised industries	1,530	-0.5	-40
Housing	1,464	1.9	150
Public services	1,033	8.0	480
Transfer cost of land and buildings	62	—	—
Stockbuilding	130	—	460
Defence ⁽²⁾	2,317	-3.5	-380
Consumption			
Social and other public services	4,746	3.9	1,000
Personal	25,323	2.4	3,130

(1) Represents the demand on real resources. It is not the same as the balance of payments surplus which is calculated at current prices (not constant prices as here) and takes into account the balance of payments items such as investment income, grants and long-term capital transactions.

(2) These figures cover current military defence expenditure on goods and services on the definitions used in the statistics of National Income and Expenditure published by the Central Statistical Office; the coverage is somewhat different from that used for the Defence Budget. The figures are consistent with those shown in the 1968 Supplementary Statement on Defence Policy (Cmnd. 3701).

Chapter 7—General Industrial Prospect

In the previous chapters an assessment has been made of the general economic prospect as the Government see it and of their own strategy and plans for the next five years. In this chapter an attempt is made to see what the general prospect might imply for major groups of industries.

2. What happens in industry is not under the control of the Government. Although there is much that the Government can do in co-operation with industry to help it become more efficient, it will be industry, both management and workers, who will ultimately determine whether the opportunities opened up by devaluation are adequately exploited and whether therefore the country can manage to break out of the past constraints that have for so long kept its economic performance far below its real potential. The whole country must become much more adaptable to the rapid changes that are and will be occurring in the economic and technological fields, so that all can benefit more quickly from the potential for increased wealth that these changes are creating.

3. Such an improvement will not be achieved easily. Action by industry to improve its underlying competitiveness and efficiency is by its nature inevitably a slow and gradual process, which will build up over a period of years to make a substantial and fundamental improvement to the economy. Resistance to change is deep-seated, particularly from those who see their interests threatened. But much can and is being done by industry and by the Government both to speed up desirable change and to reduce the costs of change to those most directly affected.

4. Since 1964 a large number of major innovations in policies towards industry have been introduced. These policies, which were briefly described in chapter 2 (paragraph 4), can achieve their full purpose only if both sides of industry understand them and co-operate to

ensure that they make their full contribution to the aim of faster adaptation to change.

Manpower policies

5. Among the most important of these policies are those designed to ease the process of change for the people who are most directly affected. Greater adaptability in the economy must mean more willingness to change jobs; but that willingness will only be forthcoming if the costs to the individual are limited, if the new jobs exist and if adequate training to fill them is readily available. Greater adaptability also requires more and better manpower planning within industry and a greater willingness to foresee the problems and to consult in advance about their resolution.

6. Much has been done in recent years on these lines. Earnings-related unemployment benefit and lump-sum redundancy payments have reduced the financial hardship to those affected. Such payments, however, cannot be a substitute for effective policies to find new jobs for people whose jobs have disappeared.

7. It is in the Development Areas that the risks of prolonged unemployment, especially for older men, are greatest. At the same time it is in these areas, dependent as they have been on the older industries, that structural change is most important and where there are reserves of labour which, if deployed, can make an effective contribution to national economic growth. The Government's policies and measures to achieve this objective are fully described in chapter 9. These policies have a national as well as a merely regional purpose. They seek not only to reduce unemployment in the Development Areas to a level nearer the national average and to achieve a higher level of activity there, but also to relieve in other areas cost and supply pressures which could impede national growth.

8. Throughout the country, more is being done to find new jobs for those displaced by change. The placement services are being expanded; given better manpower planning within industry, these services can do much to cut down the delays in redeployment. Training and re-training facilities are also being expanded as fast as resources permit. Within industry the Industrial Training

Act is clearly beginning to evoke a major change in attitudes as to both the amount and the quality of training required. The Government Training Centres for giving new skills to those whose previous skills have become redundant are expanding fast, particularly in the Development Areas where the needs are greatest.

Public industry

9. The Government have a special responsibility in respect of the publicly-owned industries, which occupy a central place in the economy. Much is being done to create in them a framework within which those who have day-to-day responsibility can operate effectively, making the best use of manpower and other resources, and so increase their contribution to national efficiency. General policies have been laid down for the fuel and transport industries* to provide the framework for the industries' long-term development; new general criteria for investment and pricing policies† have been established, designed to promote the optimum allocation of resources both within the public sector and in relation to the private sector.

10. These two advances have produced the firm long-term framework needed in which those responsible can get on with their plans for the running of their industries. Prospects for these industries are described in chapter 8.

Private industry

11. In the private sector the Government's responsibility is less direct. Nevertheless, much is being done by the Government to help industry to adapt and take advantage of change in a wide variety of ways—aid to investment through the investment grants scheme, aid to exports through the various Board of Trade services, aid to faster innovation in advanced technology through a variety of schemes, aid to the re-structuring of industry to make it more internationally competitive through the IRC and other bodies, etc. This list is far from exhaustive; but it illustrates the wide scope of the support which the Government are now giving to the promotion of greater efficiency and adaptability in industry.

* Fuel Policy, Cmnd. 3438, November 1967; Transport Policy, Cmnd. 3057, July 1966.

† Nationalised Industries—A Review of Economic and Financial Objectives, Cmnd. 3437, November 1967.

12. But Government action cannot be effective alone. Improvements to national competitiveness and efficiency ultimately have to be made by management, in full co-operation with their workers. Better management education and training is vital here, and substantial improvements have been made in this field. Better management requires better information and better planning throughout industry. The Government cannot plan the private sector. Only individual firms can plan their own activities. In the past there has been too little planning within industry and that planning on too short a time-scale. There is a growing acceptance in industry of the need to plan and a growing appreciation of the various techniques for planning and investment appraisal. But planning within the firm will be most effective when there can be a flow of information to the firm about likely developments in the rest of the economy and particularly in its customer and supplier industries.

13. The EDCs have a key role to play in this field. While in the initial years they had to devote much of their time to the basic task of gathering information, now they are becoming increasingly concerned in the study of issues that bear directly on the improvement of the efficiency of their industries. But their planning work in analysing the developing problems of their industries in time for the necessary action to be taken, has been made more difficult by the economic uncertainties of the past two years.

14. The present preliminary assessment by the Government is intended to aid the work of the EDCs in this field; but it must be recognised that the full value of this kind of consultative planning will be gained only over a period of years, as the parties concerned acquire experience and as the quality of the assessments and the analysis improves.

The industrial estimates

15. As background to the discussions with industry it is useful to have some quantitative assessment of what the overall prospects and requirements are likely to imply for individual industries. The level of total output over the next four years will depend on progress in the balance of payments and particularly on industry's competitive success in improving the ratio of exports to imports. It will also depend on the extent to which the policies and action

outlined earlier in this chapter succeed in bringing improvements, not only at the national level but also in individual industries and firms, in the other key ratios which determine the underlying growth of productivity and efficiency. Of particular importance will be an improvement in the ratio of output to investment, though no quantitative objective for this improvement is being suggested in this assessment.

16. For reasons given in earlier chapters, the Government believe that, on a reasonable projection of past and current trends, the annual rate of growth of total output is likely to lie between just under 3 per cent and nearly 4 per cent. The higher figure is not being set down as an objective but as the best that can reasonably be expected unless the country's economic performance can be increasingly improved. It is a main purpose of this document to provide a basis for a dialogue with industry which will expedite and enlarge that improvement.

17. Detailed estimates have, however, to be based on specific rates of growth. In order to avoid excessive proliferation of figures, the industrial estimates have been based on a single set of assumptions: the $3\frac{1}{4}$ per cent annual rate of economic growth that would reflect a continuation of the past trend in productivity (output per man-hour) and the improvements in exports and import-saving that would be necessary to support that rate. In interpreting the estimates, however, it must be remembered that they represent only one of a possible set of outcomes and that a faster rate of growth would require both a better rate of improvement in exports or import-saving and a better underlying improvement in productivity. In present conditions both the Government and industry must plan in a flexible way for a variety of possible outcomes; any precise objective would bring an undue degree of rigidity into planning. The detailed estimates should therefore be regarded only as a starting point for consultations with industry, which should lead to the exploration of the implications of different rates of growth.

18. In any individual industry—still more in any firm—what actually happens to output and employment will depend on a large number of separate factors, of which the general rate of economic growth is only one. Nevertheless, it is possible from a study of past relationships to

make some preliminary estimates of what might happen to output and employment in individual industries if the country's total expenditure were to be distributed as shown in chapter 6. The process was broadly as follows. Estimates were made of the effect on direct demand for the products of different industries of the estimates of total investment and of public and private consumption indicated in that chapter. These estimates were then aggregated with estimates of the contribution which each industry might make to the export requirement to produce estimates of final demand on each industry. These in turn were converted, by the use of an input-output model, into a set of estimates of the total output of each industry, including its production of materials for other industries. Finally, likely changes in employment in different industries were estimated on the assumption that productivity in each industry changed in line with past trends. In some cases, where separate estimates were available, as they were for certain industries such as agriculture and fuel and power, they have been used.

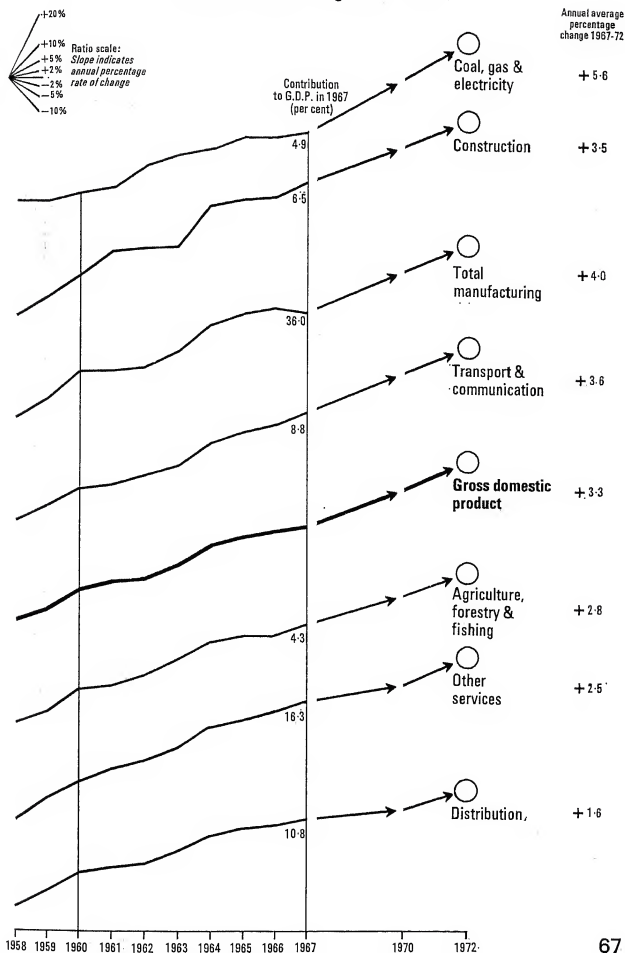
19. The resulting estimates for broad groups of industries are shown in charts 7.1 and 7.2. No great accuracy can be claimed for them. Certainly they underestimate the element of change in the economy. But they do provide a starting-point for the assessment of the industrial implications of the overall economic outlook and for an analysis, industry by industry, of what requires to be done in industrial terms if the prospect for the economy as a whole, upon which the prospect for each firm and industry greatly depends, is to be improved.

20. Between 1963 and 1967 the rate of growth in manufacturing was practically the same as in total output—2.9 per cent a year against 2.8 per cent. With the concentration of growth in the export and import-saving fields, and with some cyclical recovery in the economy, the gap between the two will widen. With an annual growth rate of $3\frac{1}{4}$ per cent in total output to 1972, the annual rate of growth in manufacturing might rise to 4 per cent; a similar gap would be likely for other rates of national growth. This is because the private services, other than transport, are likely to be affected by the slow growth of consumers' expenditure. These services include many, such as retail distribution and personal services, where a check to the growth of home demand cannot be

Chart 7.1

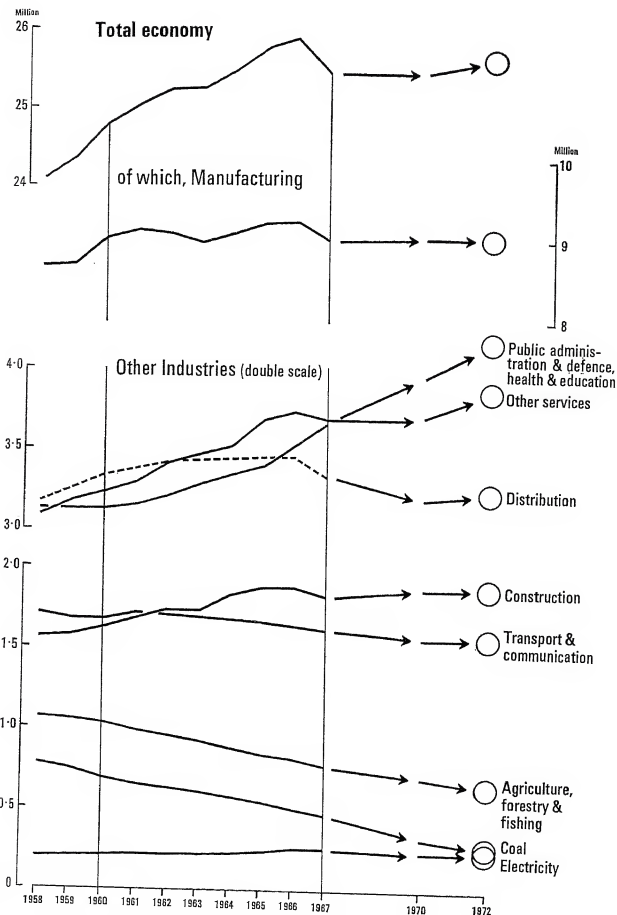
Gross domestic product

A possible pattern of growth to 1972



Employment

A possible pattern of growth to 1972



offset by increased sales abroad, or by taking a larger share of the home market from imports. The gap will be widest in the period to 1970 when devaluation will have its greatest impact. Thereafter the rate of growth in manufacturing is unlikely to be much higher than in the rest of the economy.

21. The biggest inter-industrial shifts are likely to occur in the public sector, particularly in the *fuel industries*. There the next four years will see important advances in the transition from a two-fuel economy—based on coal and oil—to one based on four fuels, with natural gas and nuclear power increasingly supplementing the two traditional fuels. This development promises substantial advantages for the economy. (Further details are given in chapter 8.)

22. In the *construction industry*, the rate of growth is expected to be roughly in line with the past trend, with the industry's output growing at much the same rate as the country's total output. Higher investment by manufacturing industry will require a sharp increase in factory building over the next few years; but the annual rate of growth in the public non-housing sector, which has been about 10 per cent in recent years, is likely to moderate considerably. In housing the Government's aim is a planned and balanced programme of new house-building. In the public sector, total investment in housing should continue at roughly the present level, but with a greater share going to the improvement of older houses as announced in recent White Papers*. Housebuilding by the private sector is harder to foresee; but output in the next two years could remain steady after its substantial growth in 1967/68.

23. For *agriculture*, the Government's objectives were announced by the Minister of Agriculture on 12th November 1968. They are for continuing selective expansion up to 1972/73 leading to an expected further net saving of imports of some £160 million a year by that date. These objectives are broadly in line with those which the EDC for Agriculture† considered feasible, except where technical and marketing considerations, particularly as regards cereals and pigmeat for bacon,

* Old Houses into New Homes, Cmnd. 3602, April 1968. The Older Houses in Scotland; A Plan for Action, Cmnd. 3598, July 1968.

† Agriculture's Import Saving Role (NEDO).

are limiting factors. Productivity in agriculture is expected to continue its rapid rise, so that this industry will be making a further major contribution to the general economy through the continuing run down of employment, and this is one of the conditions attached to the expansion programme.

24. *Employment*—During the next few years there will be a check to the growth of the working population for reasons described in chapter 4. But, because of the rising number of dependents and the need for improvement in the quality of the health and education services, the numbers employed in the public services (but not in the nationalised industries) will continue to grow, though at a rate slightly below that of previous years*. Employment in the rest of the economy is therefore likely to fall. This is no new phenomenon. Between 1962 and 1967 there was a fall of 230,000; but the fall is likely to be rather larger—perhaps over 300,000—between 1967 and 1972.

25. As in recent years, the fall in employment will be concentrated on coal-mining and agriculture, which together may lose some 300,000 workers between 1967 and 1972. The former has important regional consequences which are considered in chapter 9. Manufacturing industry may hold its present share of total employment. This will be possible only if the demands for labour in the public sector and private services can be restrained. Employment in distribution fell sharply in 1967—a reflection both of the check to the growth of retail sales and of the selective employment tax. With increases in their output continuing to be below average, no further increases should be necessary in employment in distribution and other private services taken together.

Manufacturing industry: the balance of trade

26. The main part of the task of earning a surplus on the balance of trade will fall on manufacturing, in respect both of exports and of import-saving. In the next four years, therefore, whatever the growth rate, exports and import-saving will need to take a much larger part of the increase in output than they have in previous years. For many

* In the case of the public services it is impossible to measure changes in output or productivity. It would clearly be wrong to interpret a reduction in the average size of a class as a fall in teachers' productivity, and there are similar problems throughout the field. It has, therefore, to be assumed that the output of each category of public servant is constant over the years, with the effect that a movement of people into the public services appears to reduce the national rate of measurable growth of output that can be achieved.

industries and firms, demand and profits are going to be more than usually dependent on their international competitive position. So in any assessment of the outlook for manufacturing, priority must be given to the prospect for exports and for the displacement of imports.

27. Success—and particularly long-term success—in improving the export/import ratio will not be achieved until firms are market-oriented in the widest sense. This means that firms will need to plan their production having regard to the total market available at home and abroad. There are special difficulties for planning in the field of foreign trade. Uncertainties relating to export markets are greater than for the home market, and detailed knowledge is less. But the experience of many firms has shown that such planning can bring high financial rewards; and the point is well illustrated in the Mechanical Engineering EDCs report entitled “Market—the World”.

28. Notwithstanding the uncertainties, the Government believe that a planning dialogue with industry must begin with a frank exchange of views about the prospects for exports and import saving and the ways in which action by Government could most effectively help. As background to this dialogue, estimates have been prepared of what the total improvement required in the balance of trade might imply for individual industries. In advance of the consultation with industry, any such assessment can only be rough, and detailed discussion with industry will certainly reveal that some figures are too low and others too high. Moreover, the classification of industries shown is broad and, within each group of industries, the performance of individual sectors—still more of individual firms—will diverge from the average for the group.

29. The estimates have been based on a single set of assumptions about the growth of the economy ($3\frac{1}{4}$ per cent a year) and the development of other elements in the net balance of trade. A better export performance, or improved competition with imports, will be needed if full advantage is to be taken of a more rapid increase in industrial efficiency. Moreover, the required improvement in the net *balance* of trade could be achieved at different *levels* of trade. The estimates represent only one way in which that improvement might be split between higher exports and more import saving: what is essential

is that the export/import ratio of industries and firms should be improved if that of the whole growing economy is to be improved.

Exports

30. The total export requirement has been allocated between industries on a few simple assumptions. The summary results for some of the main manufacturing industries are shown in chart 7.3. The results are not adjusted for the 1967 dock strikes, so that the overall annual increase of $6\frac{1}{2}$ per cent a year between 1967 and 1972 is higher than the $5\frac{3}{4}$ per cent a year mentioned in chapter 3 (which was the rate of increase after adding to 1967 those exports which were pushed into 1968 by the strikes). Rather more detailed estimates will be made available for discussion with individual industries. The method of allocation began by projecting to 1972 past trends in the volume of each industry's exports. The sum of these projections was, of course, less than the requirement. The difference was spread over industries on two assumptions. The first was that the industries which used comparatively little imported materials and fuel would have a greater cost advantage in overseas markets from devaluation. The second was that those whose exports had increased most in the past would generally have both the best sales organisations ready to exploit this advantage and also the most rapidly expanding markets.

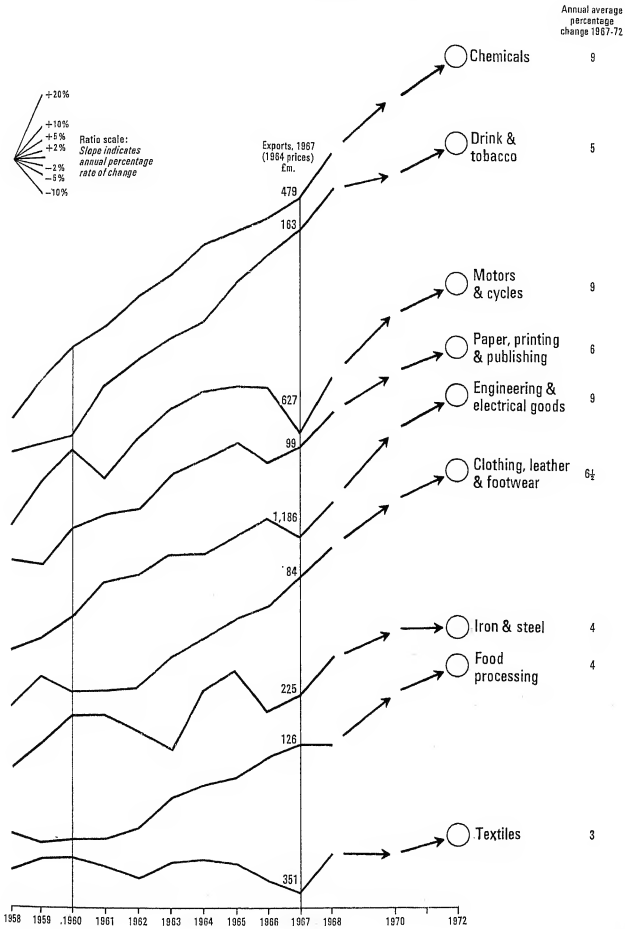
31. In a few cases where past trends seem to provide a poor basis for projection, including the iron and steel industry, specific estimates of exports in 1972 were available and have been included. These estimates are no less subject than the others to discussion and adjustment.

32. In 1967 exports amounted to over £4,600 million (at 1964 prices) of which £4,200 million were manufactures. The increase required by 1972 is rather over £1,700 million. On the assumptions given in paragraph 30, and bearing in mind the qualifications in paragraph 29 above, it is estimated that over £1,600 million would be manufactured goods. The three largest contributions to this increase, accounting for three-quarters of the total, would come from chemicals (£250 million), engineering and electrical goods (£670 million), and motors and cycles (£330 million), and the volume of their exports in 1972 would need to be 50 per cent higher than in 1967—an

Chart 7.3

Volume of manufacturing industries' exports

A possible pattern of growth to 1972



annual rate of increase of 9 per cent. In the two latter industries, the increase is substantially less in relation to 1966 because of the fall in their exports in 1967. In relation to 1966, the average annual growth rates would be 7 per cent and 5 per cent respectively, as against averages of $4\frac{1}{2}$ per cent and 3 per cent achieved in 1960–66.

33. Progress in 1968 towards the requirements shown in chart 7.3 has been encouraging, and above expectations at the time of the 1968 Budget. Partly because of a sharper-than-average growth in world trade, substantial volume increases of well over 10 per cent have been achieved in most major industries. The sharpest growth has been in exports of cars, an industry which was well placed to exploit rapidly the cost advantages of devaluation. In other industries, notably general engineering, the gains of devaluation are bound to be realised more slowly because of the time taken to produce many of the goods. But new export orders have risen sharply and there are good prospects of continued rapid increases in export deliveries in 1969 and 1970.

34. Thereafter, the momentum of growth will have to be maintained. If, after the immediate effects of devaluation have worked through, exports in individual industries were to return to their past trend rate of increase, with the United Kingdom's share of world markets falling as fast as in previous periods, the required trade surplus would not be maintained. The initial cost advantage afforded by devaluation will therefore have to be converted into a lasting gain in British firms' competitive positions. Competitive power in respect of non-price factors—design, delivery, marketing, etc.—will have to be substantially improved, and new investment directed towards the world market will have to be undertaken in the near future if the longer-term expansion in exports is not to be held back by shortages of suitable capacity.

Imports

35. Competition with imports on the home market is no less important than greater exporting. To a large extent the growth in imports of manufactures in the 1960s is part of a welcome liberalisation of world trade, which enables this country to share in the general benefits of international specialisation. However, if imports were to continue to

grow as rapidly as in recent years, they would, within a measurable time, pre-empt a proportion of home demand which was neither acceptable to industry nor viable for the economy as a whole. The increased sterling cost of overseas goods after devaluation should lead to a temporary check to imports; but it could also mark the beginning of a slowing down in the underlying rate of growth of imports of manufactures, provided British industry makes full use of the opportunities presented by devaluation to make radical improvements in design and production methods.

36. The estimate given in chapter 3 above of imports of manufactures likely to be required in 1972 in the basic case has been broken down in much the same way as the export total, and the results for some of the main manufacturing industries are shown in chart 7.4. The chart shows the course of imports since 1961 for comparison; it is clear that a marked slow-down is needed in the period up to 1972. As with exports, discussions with industries will bring to light factors not taken into account in these estimates which will have to be adjusted; indeed it is very probable that the estimates of total imports and of total exports will need alteration, even if the required trade balance is unchanged.

37. In 1968 the increase in imports was disappointingly high. In spite of devaluation, there were marked rises in the volume of imports of most categories of manufactured goods including those which could be produced at home. The sharpest increases were in shipbuilding, reflecting the very high foreign ordering by British firms in the two years before devaluation, and in aircraft, and some reduction is expected in these sectors. But there were also sharp increases in many other industries, notably steel, chemicals and several branches of textiles. In general engineering, the increase was much below that of previous years; but this may have been due to the depressed level of home demand for plant and equipment as much as to import-saving.

38. The reasons for this disappointing performance are still far from clear. In some industries, especially in the newer types of chemicals, lack of sufficient capacity to meet home demand appears to have been a significant factor. But many other factors have been important, and

it is still too early to determine to what extent the poor performance in 1968 represented an underlying increase in the propensity to import. If it did, and if there were no subsequent recovery by British firms, then the estimates of imports shown in chart 7.4 would prove rather low and, if the balance of trade requirement were to be achieved, exports would have to rise faster than shown in chart 7.3. As stated earlier, the estimates represent only one way in which the necessary improvement can be obtained. All that is essential is that in nearly every industry there should be a marked improvement in competitive performance, whether in home or overseas markets, of the order of magnitude suggested in charts 7.3 and 7.4 together.

Output and employment

39. In the next few years what happens to output and therefore to employment in most individual industries should be more than usually dependent on their international competitive success. The link between the general rate of economic growth and that in individual industries is therefore likely to be less close than in previous periods. Even so there will be some implications for the distribution of manufacturing output arising from the pattern of fast-rising investment and only slow growth in public and private consumption suggested in chapter 6. If total output were to grow at $3\frac{1}{2}$ per cent a year, and if exports and imports grew as suggested in the previous section, output and employment might be distributed between individual manufacturing industries as shown in charts 7.5 and 7.6. Though higher rates of increase in productivity will be necessary for achieving a faster rate of growth, the employment estimates for the basic case are largely based on the projection of past productivity trends. But independent estimates have been preferred in industries where there are especially strong reasons to expect an improvement on past trends.

40. Despite the forecast shift of resources into exports and import-saving, the charts do not show any marked departures from past trends in output. The fastest growth is expected in chemicals, as in earlier periods, and in motors and cycles, where continuing restrictions on home demand should be offset by good progress abroad. Steel output should recover strongly from its 1967 recession. Slow growth seems likely in industries pri-

Chart 7.4

Volume of competitive imports of selected industries

A possible pattern of growth to 1972

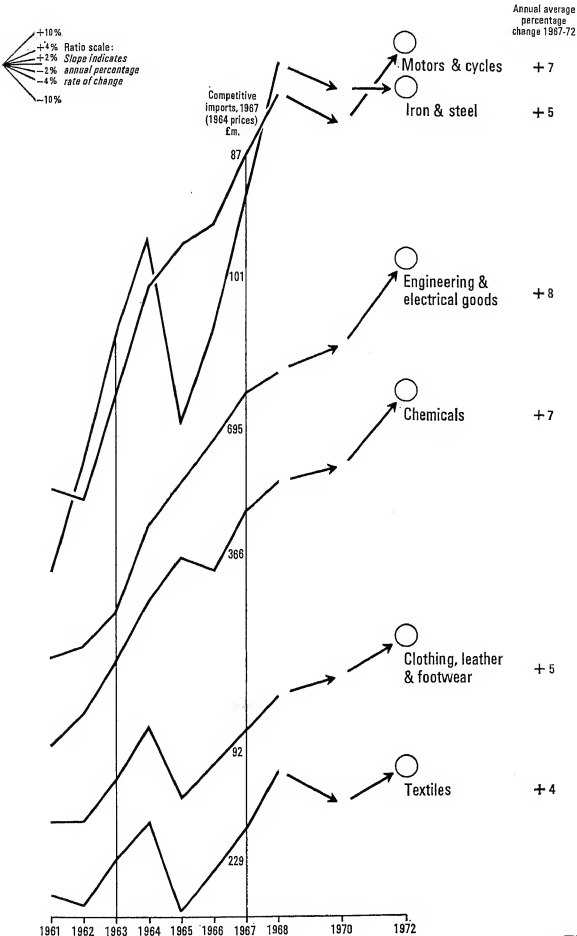


Chart 7.5

Manufacturing production

A possible pattern of growth to 1972

Annual average
percentage
change 1967-72

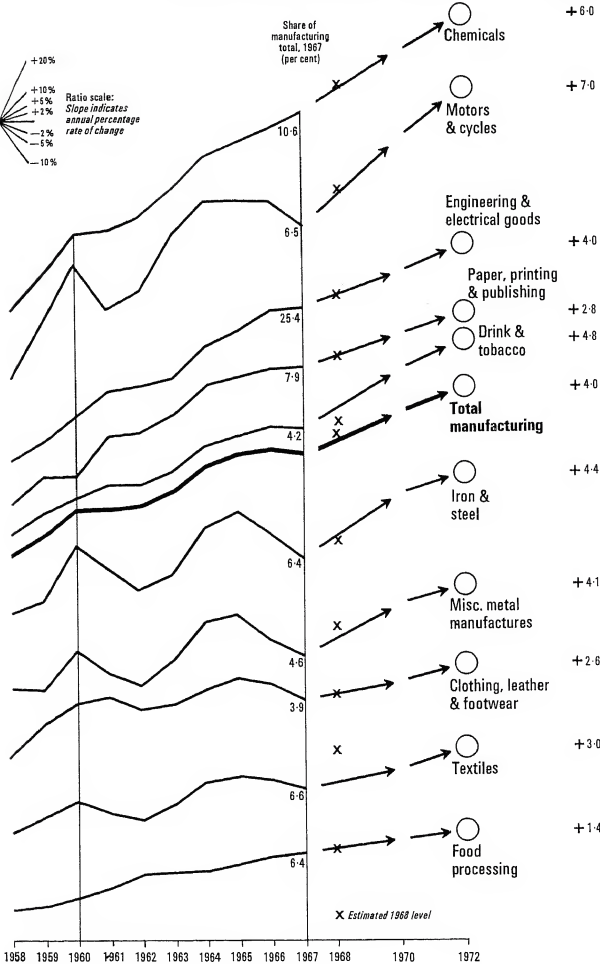
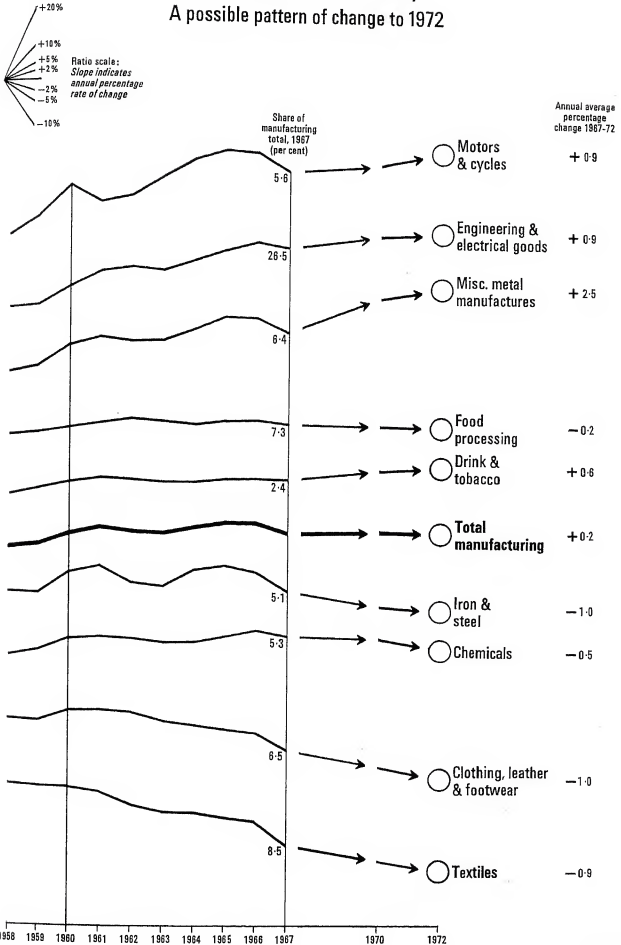


Chart 7.6

Employment Manufacturing industry

A possible pattern of change to 1972



marily dependent on home consumer demand such as clothing, textiles and food. Engineering output, in spite of its major contribution both to increased investment in manufacturing and to the balance of trade, may only rise as fast as manufacturing output as a whole. In general, indeed, the shift of resources into exports and import-saving should occur within, rather than between, the industry groups distinguished here. Although there will be rather more significant shifts from industry to industry within these broad groups, most of the shift is likely to be within industries, often indeed within individual firms.

41. No marked changes are expected in the industrial distribution of employment in manufacturing. There will be some continuing shift out of textiles and clothing into the engineering industries; but it is expected that the sharp increases in motor output can be achieved with little extra labour. Another industry in which considerable gains in output should be achieved without extra labour is iron and steel; though output should rise considerably, manpower in the public sector of the industry is likely to fall by at least 50,000 by the middle 1970s. This would represent a considerable achievement in an industry where improvement in productivity has increased it only slowly in recent years. The reorganisation of shipbuilding is also expected to lead to a major improvement in an industry where productivity has previously been sluggish.

Productivity and investment

42. Estimates of productivity and investment in manufacturing were made on the basis of a rate of growth of $3\frac{1}{4}$ per cent a year in total output and of 4 per cent a year in the output of manufactures. In order to achieve this rate, productivity in manufacturing would have to rise by nearly 4 per cent a year. In the past two years, productivity in manufacturing has grown considerably faster than that, even though in 1967 the restraint on output would, on past experience, have been likely to lead to below-average increases in productivity. In late 1968 signs were beginning to appear of increasing supply difficulties in a number of industries. In spite of high unemployment, vacancies and overtime were increasing sharply, and in several industries many firms were indicating that further increases in output were likely to be limited by shortages of skilled labour and of capacity.

43. These shortages were far from general. In particular, because of the continuing level of private manufacturing investment, shortages of skilled engineering labour were markedly less acute than in earlier years. But there may have been less slack in the manufacturing sector than might have been expected given the level of unemployment.

44. It is essential that future expansion—above all, the performance of manufacturing industry in competition with overseas producers—should not be held back by supply difficulties. To avoid them, firms in a position to sell more should have installed the necessary capacity and should be able to obtain the skilled and other labour they need. This latter is perhaps particularly important for the broad group of engineering industries. As investment in plant and machinery rises in response to the new opportunities, the demand for these industries' products could rise sharply, particularly if the rate of growth in manufacturing as a whole approaches 4 per cent a year. In addition, these industries would have to make a further contribution to exports and import-saving to support the higher growth rate, and the extra consumer demand generated by higher real incomes would be particularly directed towards products with a high income elasticity, such as cars. In past periods of high demand for labour, the most acute shortages have usually been of skilled engineering workers, above all in the West Midlands, and these shortages have tended to lead to lengthening delivery periods and lost overseas sales. Unless adequate steps are taken now to prevent the recurrence of these conditions, the possibilities of sustained and more rapid growth could be set back. That is why, in the consultation with industry, so many engineering industries have been selected for special attention.

45. As was suggested in chapter 6, it is very difficult to estimate the level of investment that will be required to support future growth. So this chapter has not included any detailed figures for the investment required in individual manufacturing industries. But it is generally accepted that faster growth in manufacturing output and productivity will require a substantial improvement in both the amount and the effectiveness of investment. Although in many firms a considerable increase in output a head could be achieved through better management and

organisation, particularly with full co-operation with workers and trade unions, most improvements will require new investment in up-to-date capital equipment. Investment requirements and intentions, particularly in respect of the more capital-intensive industries where new projects take years to become operational, must therefore be one of the most important subjects for detailed consultation with industry in the course of the year.

Conclusion

46. In this chapter, an attempt has been made to clarify some of the industrial implications of the general economic assessment given in earlier chapters. The following chapter gives more details on the public industries for which the Government have special responsibility and which make a particularly large call on the country's investment resources.

47. The future of the British economy depends primarily on the ability of industry, particularly manufacturing industry, to improve its international competitiveness. The figures in this chapter have given some idea of the scale of the improvement that is required if the country's long-term future growth is not to be held back by a failure to earn its living abroad. Many of the particular figures in this chapter will not prove correct, and in the industrial consultation many will have to be altered. But the chapter sets out what on average will have to be achieved. If some industries cannot achieve the figures given here, then in others performance will have to exceed them. Also if the rate of economic growth is to be raised to a figure more nearly comparable with that which has been achieved by most of the United Kingdom's main competitors, international performance will have to be even better than suggested in the detailed figures. If this is achieved, the next few years could see a major transformation of the economy and the achievement at last of a competitive base on which faster, long-term growth could be firmly established.

Chapter 8—Public Industry

The nationalised industries form a big and important sector of the economy. In 1967 their combined sales revenue was just under £6,000 million; their investment, at £1,650 million, was one-fifth of the national total and roughly equivalent to that for the whole of manufacturing industry.

2. The level of total investment by the nationalised industries, which has grown considerably over the past five years, should fall slightly over the next two years, and then begin to rise again. Moreover owing to rapid change in technology and their rationalisation plans, the industries—chiefly coal, railways, docks and steel—will release something like one-quarter of a million men over the next two to three years, thus making available substantial manpower which is needed for the future growth of the rest of the economy.

3. Because of the size of the sector, Government policy towards nationalised industries is based on the leading role they can play in promoting the competitive strength and future growth of the economy. Recent developments—especially in the fuel and transport industries—will have a marked effect on the future performance of the economy.

4. The White Paper: Nationalised Industries—A Review of Economic and Financial Objectives (Cmnd. 3437), published in November 1967, established new guidelines for the operation of these industries. These guidelines, designed to promote the optimum allocation of resources between the private and the public sectors and also between the various public industries, stipulate that public industries should where possible relate their prices to their costs at the margin of production, and that new public investment should normally be expected to earn a return at least equal to a minimum test rate of discount which is based on private sector experience. In addition, all claims for major price increases in the public sector are now referred to the National Board for Prices and Incomes which, in association with such references, is authorised

to carry out "efficiency studies" of the nationalised industries in appropriate cases.

Energy

5. The next four years will see important advances in the transition from a two-fuel economy—based on coal and oil—to one based on four fuels, with natural gas and nuclear power increasingly supplementing the two traditional fuels. This development promises substantial advantages for the economy. During this period, Britain's energy requirements are expected to grow at an average rate of 1.6 per cent a year, reaching a total of 312 million tons of coal equivalent (mtce) in 1970 and 326 mtce in 1972*. This is closely in line with the trend expected in the White Paper on Fuel Policy†. The precise share of these total requirements which each primary fuel will supply, particularly after 1970, will depend partly on its competitive position and the movement of relative costs. It will also depend on a number of other factors: for example, the primary fuel requirements of power stations, which account for about one-third of all primary fuel use, will be affected by the rate at which electricity demand grows; and the precise rate at which the use of the natural gas expands in the 1970s will depend on experience gained in the development of markets and also on progress with North Sea exploration.

6. Mainly because electricity demand has grown rather more slowly than expected, coal consumption in 1970 may now fall a little short of the 155 million tons in the White Paper projections. The growth of nuclear power and natural gas is also likely to be somewhat slower than expected in the White Paper. Partly in consequence of this slower build-up, the use of oil is expected to be rather higher, and more oil will be needed, in particular for use in transport.

7. Unlike the other energy industries, coal is still relatively labour-intensive and hence labour productivity is especially important in the drive to keep down costs. Since 1966 the coal industry has made outstanding economies: output per manshift rose by more than 6 per cent in 1967 and by a further 10 per cent in 1968, and the National Coal

* If total output were to grow at the faster rate referred to in chapter 4, paragraph 23, the demand for fuel in 1972 would be raised by a further 10 mtce.

† Cmnd. 3438, November 1967.

Board expect the rise to continue at an average annual rate of 8 per cent to reach 56 cwt per manshift in 1972. The progressive advance in mechanisation and the concentration of the industry on the best pits will mean a continuing reduction of the labour force, but at a substantially slower rate than in 1968. Much of the reduction will be achieved through natural wastage, but there will be redundancies.

8. In order to minimise individual hardship, the Government are contributing substantially towards the provision of benefits to redundant miners, especially the older workers who will have particular difficulty in finding new employment. The economy will gain full advantage from this large release of manpower only when the redundant miners are found new employment in other industries. The measures which the Government are taking, particularly in the field of manpower policy, to ensure that transfers take place were referred to in chapter 7. Many of the high-cost pits are concentrated in the Development Areas where the problems of re-employment are greater. The steps which the Government are taking to provide new jobs in these areas, and the prospects for employment in the light of these steps, are discussed in chapter 9 below.

9. The gas industry faces a major task in transforming the highly developed town gas industry into a much larger one based on natural gas. A vigorous start has already been made. Four under-sea pipelines from the well heads have been laid, and on shore two feeder mains taking the natural gas to the main grid are in service and a third is nearing completion. Natural gas should be available to all area gas boards by 1970 and work is in progress on extending the grid to the four boards—Northern, Scottish, South Western and Wales—which are not yet connected. The growth of gas sales is expected to accelerate from a 13 per cent increase this year to an annual rate of over 20 per cent in 1970 as the flow of North Sea gas increases. The gas industry's present plans are based on an absorption of some 1,200 million cubic feet a day (mcf) during 1970 and rather over 2,000 mcf in 1972.

10. Electricity sales are expected to expand at about 6 per cent a year—rather below the rate anticipated in the White Paper on Fuel Policy, but close to that of the last five years. The risk to electricity supplies, which has

persisted since the end of the war as a result of shortage of generating plant and weaknesses in the distribution system, has now been overcome. Because it takes five or six years to plan and build new power stations, all the generating plant to be commissioned by 1972 is already on order; over 25,000 MW of new plant will come into service in the next five years, leading to a significant improvement in operational efficiency and making it possible to close down some of the pre-war stations. Total capacity in 1972 will be 71,500 MW, of which 51,000 MW will be coal-fired and 6,000 MW nuclear, including part of each of the first two advanced gas-cooled reactor (AGR) stations. Because the growth of electricity demand has been slower than expected, the industry will have a rather larger margin of reserve capacity than the planned 17 per cent and, as a result of this temporary surplus, power station investment in the period to 1972 will be substantially below the level of recent years.

11. The provisional investment programmes of the nationalised fuel industries are summarised in table 8.1 :

Table 8.1

£ million, 1968 prices

	1969/70 ⁽¹⁾	1970/71 ⁽²⁾	1971/72 ⁽³⁾	1972/73 ⁽³⁾
Electricity ⁽⁴⁾	546	507	525	590
Gas ⁽⁵⁾	231	264	225	205
Coal ⁽⁶⁾	68	75	75	75

(1) The programmes have been approved by the Government.

(2) Provisional figures, subject to review.

(3) No programmes have yet been approved for these years.

(4) Electricity includes the Scottish Boards as well as those in England and Wales.

(5) Gas investment excludes conversion charges for natural gas.

(6) Coal investment includes that in trade undertakings.

Transport

12. Demand for inland transport services is growing rapidly and calls for a high level of investment. Investment on activities hitherto covered by the Railways Board should be of the order of £90 million in 1969. Most of this will be spent on improving the efficiency of the basic rail network which will be used by the expanding freight liner and inter-city passenger traffics and by commuter services. Port investment has almost trebled since 1964 as the backlog of requirements has been tackled, reaching about £54 million in 1968; it is expected to continue at a

level between £50 million and £60 million a year over the next few years. Major schemes which have recently come into service, or are about to do so, include deep water terminals for oil tankers and other large bulk carriers—notably on the Clyde, at Tilbury and at Liverpool, and an entirely new harbour at Port Talbot for 100,000 ton ore carriers—and specialised deep sea container berths at a number of major ports. At the same time, modern ships and cargo-handling facilities are improving freight journey times and reliability on the very important short-sea routes to Europe and to Ireland.

13. In the current financial year road investment is expected to exceed £325 million—twice the annual sum spent five years ago. By 1970/71 the figure should exceed £375 million. There are 590 miles of motorway now open to traffic and another 150 miles are under construction. By the early 1970s 1,000 miles of motorway will be completed in England and Wales. There are now about 750 miles of dual-carriageway trunk roads compared with about 170 miles ten years ago and by 1970 there will be over 900 miles. A large volume of main road improvements in urban areas is also in progress. In all, road schemes to a value of £2,500 million are at present under construction or have been announced and many others are at the planning stage.

14. The continued growth of air transport and rapid innovation call for a high level of investment in new aircraft, control equipment and terminal facilities. Over the next five years the British Overseas Airways Corporation (BOAC) and British European Airways (BEA) will spend about £450 million mainly on aircraft re-equipment. BOAC have already ordered twelve Boeing 747s at a total cost of £166 million and BEA 26 Trident 3Bs at an estimated £83 million. They are also investing in the development of computer systems for flight control, communications and reservations and on freight terminal facilities. The major venture in the latter category is the £23 million cargo complex at Heathrow, jointly developed by the British Airports Authority and BEA, BOAC and other airlines, which is nearing completion. Work has also begun on the Authority's £12½ million jumbo jet terminal at Heathrow.

Postal services and telecommunications

15. In the period 1963–67 the Post Office's sales revenue grew at 7 per cent a year (at constant prices) and their employment at 2.3 per cent; in the period 1967–72 revenue is expected to grow at 7.1 per cent a year (at constant prices) while total employment should remain stable. At the same time the number of telephone connections is expected to grow by 8 per cent a year, reaching $10\frac{1}{2}$ million in 1972; local calls are expected to increase at an annual rate of 9 per cent, inland trunk calls at 11 per cent and foreign calls at an even higher rate. At present 2,200 terminals are using the telecommunications system for the transmission of computer data and for some years ahead their number is expected to double each year. The investment figures in table 8.2 below provide for this. Market research now in progress into the future demands for data transmission may well show that investment in the trunk and junction network will need to be augmented by about 1971/1972 and onwards.

16. Provisional estimates of Post Office investment (excluding land and existing buildings) are given below:

Table 8.2

£ million, 1968 prices

	1969/70 ⁽¹⁾	1970/71 ⁽¹⁾	1971/72 ⁽²⁾	1972/73 ⁽²⁾
Postal services and Giro	29	34	40	40
Telecommunications .	339	381	380	385
National data processing service .	7	8	5	5

(1) These figures are subject to review in 1969 and are not firm approvals.

(2) Programmes not yet approved by the Government.

17. Over the period 1967–1972 some £1,800 million will be invested in improving the telecommunications system and in expanding its capacity by about 50 per cent (with no corresponding increase in staff). One-third of this investment will be on exchange equipment (a growing proportion of exchanges will use electronic rather than auto-mechanical equipment), 29 per cent on subscriber circuits and local lines and 17 per cent on trunk and junction circuits. By 1970 the conversion of manual exchanges will be virtually finished and STD will be available throughout the country. A good deal of investment on the postal side is on automatic sorting equipment which in the longer term will combine with current

measures, such as work study and a profit improvement plan, to improve productivity significantly. The highly automated National Giro, recently opened, will make a growing contribution to the commercial efficiency of the nation. The national data processing service, functioning independently, has provided comprehensive computer services to 'outside' customers as well as the Post Office and is thereby promoting the use of computers.

Steel

18. Steel production reached an all-time peak in 1965 at 27 million ingot tons but, due to lack of home demand, fell during the following two years. Imports in the equivalent period rose from 0.76 million ingot tons to 1.91 million tons which helped to depress home production. On the other hand, in the same period exports rose from 4.73 million tons a year to 4.94 million tons a year so that there still remained a favourable steel trade balance. The large surplus of steelmaking capacity which has emerged in the last few years, with the commissioning of large low-cost steelworks both on the continent and elsewhere, has led to this increased international competition and low world prices of steel.

19. In 1968 demand picked up and, although final figures are not yet available, the increased home production is likely to be in the region of 2 million ingot tons, with imports also increased by more than half a million tons. The improvement in demand is expected to continue, subject to cyclical variations, with home and export demand reaching 29–30 million tons in 1972. To meet this growth over the next few years will require considerable investment in projects designed to eliminate bottlenecks in existing plant and to permit rationalisation of production procedures. The British Steel Corporation's long-term development planning will provide a coherent background for investment decisions, and is now well advanced; rationalisation is made easier by the formation of the Corporation which has brought the former 14 major steel companies into a single management structure. Some 200 firms remain in the private sector; collectively their main strength is in lighter products and special steels and a parallel process of rationalisation has begun among them.

20. One of the industry's main tasks is to improve its productivity which compares unfavourably with that achieved by several of its competitors abroad. This improvement is essential if the British industry's competitive strength in the international market is to be maintained. It should be secured through concentration of iron and steel making in larger units, the introduction of modern processes and plant, closures, local productivity agreements and through continued rationalisation in both the private and the public sectors of the industry.

Chapter 9—Regional Strategy and Prospect*

Purpose of the policy

The economic aim of regional policy and planning is to help each region to make full use of its productive resources. Within each region, the primary aim is to achieve a more effective use of resources, mainly—but not exclusively—in relation to public and private investment. For this purpose a thorough examination is needed of the regions' problems and prospects and particularly of the inter-relations between the varied aspects of economic and social activity. This examination is the main task of the Regional Economic Planning Councils in England and their counterparts in Scotland and Wales, who have been asked to advise the Government, on the formulation of a strategy for the development of their regions.

2. Regional policy has a second, equally important, dimension: a better distribution of economic activity. Mainly because some regions are highly dependent on industries with declining employment, there are important long-standing disparities between regions in population growth, incomes, activity rates and unemployment. These are set out in tables 9.1 and 9.2. (Except where indicated, table 1 is for Great Britain).

3. Following the report of the Royal Commission on the Distribution of the Industrial Population† (the Barlow Report) in 1940, and the publication in May 1944 of the White Paper on Employment Policy‡, successive Governments have accepted that these disparities call for a policy of deliberate discrimination in favour of less buoyant regions. There has however been considerable variation in the intensity of this policy and in the weight attached to it as a contribution to the solution of Britain's

* This chapter does not deal specifically with the prospects for Northern Ireland; but many of the considerations affecting regional development in Great Britain clearly apply there as well. The Northern Ireland Government operates schemes of industrial assistance which are broadly comparable to those in the Development Areas and various regional studies have been undertaken. It is advised by the Northern Ireland Economic Council, which has terms of reference and membership broadly similar to those of the Regional Economic Planning Councils in Great Britain. As with the Development Areas, the actual rate of development is closely geared to the national United Kingdom level of activity.

† Cmnd. 6153, February 1940.

‡ Cmnd. 6527, May 1944.

Regional comparisons of unemployment, earnings activity rates and population between 1961 and 1966

Table 9.1

	Regional relatives					Regional differences							
	Unemployment (wholly unemployed, excluding school- leavers) 1961-66 average	Weekly household income ⁽⁶⁾ 1961-66 average	Male Earnings ⁽⁴⁾ 1964/65- 1966/67 average	Average industry- adjusted male hourly earnings ⁽⁶⁾ April 1967	Employee activity rates ⁽⁷⁾			5 year inter-regional migration per 100 resident population, 1966 ⁽⁸⁾			% Growth rate of population of working age 1961-1966		
					Male ⁽¹⁾	Female ⁽¹⁾	Married ⁽⁸⁾ women	Immigrants	Emigrants	Net	Including migration to G.B. ⁽¹¹⁾	Excluding migration internal to G.B. ⁽¹¹⁾	
													Differences from G.B. G.B. = 2.7
North	185	84	93	99	96	85	85	3.8	5.4	-1.6	-0.5	+1.4	
Yorks and Humbshire	75 ⁽¹⁾	95	94	96	104	100	100	4.4	4.8	-0.4	-0.5	-0.1	
North-West	120	95	97	99	103	107	111	3.4	3.7	-0.3	-1.0	-0.6	
East Midlands	65 ⁽¹⁾	98	95	102 ⁽²⁾	99	96	104	6.7	5.2	+1.5	+1.4	-0.2	
West Midlands	65	109	102	106	106	109	112	4.4	4.8	-0.4	+2.1	+2.4	
East Anglia	90	93	91	102 ⁽²⁾	102 ⁽²⁾	106 ⁽²⁾	84	9.8	6.3	+3.5	+3.5	+0.3	
South-East	65	112	108	96	85	81	106	3.5	3.6	-0.1	+0.5	+0.4	
South-West	100	92	92	96	85	81	87	9.2	6.1	+3.1	+1.0	-1.0	
Wales	165	90	96	98	90	73	74	4.5	4.5	0.0	-0.8	-0.4	
Scotland	205	94	92	98	100	99	88	1.8	3.5	-1.7 ⁽¹⁰⁾	-3.9	-1.9	
Great Britain	100	100	100	100 ⁽⁶⁾	100	100	100	4.3	4.3	—	0.0	0.0	
Northern Ireland	440	79	78	91 ⁽⁶⁾	82	87	61	1.7	2.6	-0.9	+0.3	+1.1	

(1) Series not strictly comparable with the others in the table because of boundary changes in 1964.

(2) Data not available for these regions separately throughout the 5 year period.

(3) Includes other incomes of all members of the household, including National Insurance Benefits.

(4) Average annual earnings for men of working age, who worked for a full year.

(5) Average male hourly earnings adjusted for regional differences in the proportions of workers in the particular industries, by minimum list heading, used in the assessment (mainly manufacturing). Owing to data limitations, the adjustment for industrial structure could not be made for present planning region boundaries in every case.

(6) United Kingdom.

(7) Activity rates of employees of 15 and above.

(8) Based on the 1966 Sample Census and so not entirely consistent with the two preceding columns.

(9) Excludes those under 5. Migrants exclude H.M. Forces.

(10) A rather larger figure, -2.1 per cent, is obtained if the mid-year estimates of the Scottish General Register Office are used. These are produced on a different basis from the 1966 Sample Census.

(11) Excluding 5 year inter-regional migrants of working age as measured in the 1966 Sample Census.

International migrants

Table 9.2

5 year rate per 100 population

	Immigrants	Emigrants	Net
Great Britain	3.3	2.9	+0.4
of which :			
Scotland	n.a.	n.a.	-1.7
Northern Ireland	1.3	2.8	-1.5

basic economic problems. The policy has two aspects. On the one hand, it seeks to bring into productive use resources, especially labour, which would otherwise be wasted in the less buoyant areas. On the other hand, it seeks to avoid excess demand especially for labour in the areas of greatest pressure—notably in the areas associated with the two main conurbations of the South and Midlands—where this leads to severe economic and social problems. As progress with the balance of payments permits a general expansion in the level of demand, excessive pressure could develop in such areas. This could generate increased costs and supply difficulties which could spread throughout the economy, and also damage these areas themselves, whose efficient functioning is of great national importance.

4. It is not the aim of regional policy to achieve a uniform rate of growth in every region or area. Different areas have different potentials for economic growth. Account also has to be taken of the fact that the geographical distribution of the population in the regions needing assistance reflects the economic forces of the past, whereas the forces which influence population distribution today would in many cases give a different pattern. It is not an aim of policy to frustrate desirable movements of population or daily commuting flows towards areas with the greatest potential for economic growth.

5. The central and most difficult function of regional policy is to strike the proper balance between these objectives. This is particularly illustrated by the problems associated with mobility. The voluntary mobility of individuals in search of a better job is of great importance to the efficient working of the economy. Greater mobility

of manpower from less to more productive employment is essential to the achievement of a faster rate of growth, and an increase in wealth and specialisation is likely to lead to greater mobility. A high rate of net migration can however create economic and social problems: people may be moving into conurbations which lack the physical capacity to absorb them, while by leaving certain areas they may imperil the economic provision of efficient public services to those who remain. Such outflows may lead to the cumulative decline of an area, in which those who remain—predominantly the older workers—will be unable to make a full contribution to the country's economic growth. Policy therefore can only be made on the basis of a clear analysis of the sources of economic strength and weakness in each area, of its physical and economic potential for continued growth, and of the real costs of economic and physical rehabilitation. The fundamental task of regional planning is to provide for each region and each sub-region a rational development strategy that combines the advantages of a dynamic economy with those of a full use of the human and physical resources of the region as a whole.

6. Such strategies will involve large variations in the rate of growth of population within regions as people move to nearby areas of greater potential. They will also involve some differences between regions, such as that likely to occur with the expected diversion of some of the South-East region's population to neighbouring regions. The balance of economic advantage would seem to lie in a substantial reduction in the present net flow of migrants of working age from the less prosperous areas towards the South and Midlands. For the next few years, as the following account will show, the dangers are not that too much progress will be made but rather that the forces of decline in some areas may not be fully offset by the present vigorous measures to promote economic growth in the less favoured parts of the country.

Progress with the policy

7. Discriminatory regional policy is at present concentrated on helping the Development Areas to obtain an increasing amount of new jobs because the problems are most acute there. The results are indicated in table 9.3.

Jobs estimated to arise in Development Areas in connection with the completion of factory buildings requiring industrial development certificates

Table 9.3

	1964	1965	1966
Additional jobs from IDCs in Development Areas	26,200 ⁽¹⁾	42,700 ⁽¹⁾	43,900 ⁽¹⁾

(1) Estimates made at the time of application for industrial development certificates of the number of jobs likely to be associated with the floor space for which certificates were sought.

There are however other areas where many of the economic and social indicators—earnings and net outward migration in particular—give cause for concern. The problems of these areas have been under investigation by the Committee on the Intermediate Areas under the chairmanship of Sir Joseph Hunt which was set up in July 1967 'to examine in relation to the economic welfare of the country as a whole, and the needs of the Development Areas, the situation in other areas where the rate of economic growth gives cause (or may give cause) for concern and to suggest whether revised policies to influence economic growth in such areas are desirable and, if so, what measures should be adopted'. The Committee's report is expected to be published early in 1969.

8. The appraisal of employment prospects over the next four years, given in paragraphs 16–32 below, shows that a great deal remains to be done in the face of the continuing decline of the longer established industrial base of the Development Areas. Much has already been achieved, however, through the large increase in Government assistance since 1964, without which a far greater problem would have emerged. There are three main forms of assistance. The first is that given to firms which are establishing or expanding undertakings which will provide extra jobs: it includes building grants, general purpose loans and grants and the provision of factory premises. Secondly, there are grants for new investment in plant and machinery. Thirdly, there is the regional employment premium.

9. The first type of assistance is given under the Local Employment Acts, and is now running at about £50 million

a year. The total expenditure will be supplemented as firms take advantage of the additional incentives recently introduced for new manufacturing projects in the Special Development Areas, which are the areas suffering or likely to suffer from high and persistent unemployment as a result of colliery closures.

10. Investment grants are paid at a rate of 40 per cent for investment in plant and machinery in Development Areas as against 20 per cent in the rest of the country. This differential extra 20 per cent is now costing £70 million a year*. It replaced the system, introduced in 1963, of free depreciation in the Development Districts as well as the 10 per cent grant on plant and machinery previously payable under the Local Employment Acts.

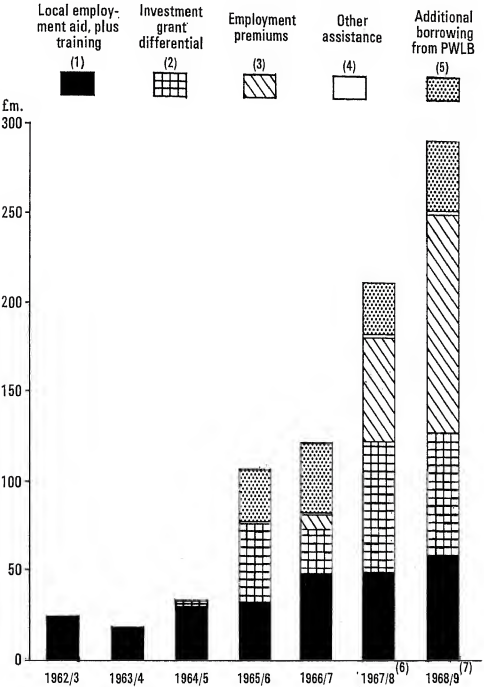
11. The regional employment premium was introduced in September 1967. All employers of labour in manufacturing industries in Development Areas now receive a weekly payment of 37s. 6d.† for each adult male employee, with corresponding rates for other kinds of worker. The aim of this payment is to give manufacturers in Development Areas—and particularly those in more labour-intensive industries—a cost advantage over their competitors elsewhere and so permit them to gain a larger share of the market than they would otherwise have had. In order to help firms to take full advantage of the premium in estimating their financial position, the Government have guaranteed that it will be in force for at least seven years. The premium is not payable, nor is SET refunded, for employees in services because, by and large, services have much more localised markets than manufacturing industry. Special assistance is however given to tourism in Development Areas. In certain rural parts of the Development Areas, where tourism is particularly important to the local economy, hotels can claim a refund of SET payments. Loans for the improvement of holiday accommodation are also available in such areas through the Council for Small Industries in Rural Areas. Under legislation to be introduced in the current session to give effect to the Hotel Development Incentives Scheme, grants for new hotels and extensions and improvements to existing hotels may be paid at a rate

* There was an additional 5 per cent for the whole country in 1967 and 1968.

† 7/6d. of this represents the selective employment premium which was withdrawn in other areas at the time of devaluation.

Chart 9.1

Assistance to Development Areas



- (1) Some of the expenditure in respect of local employment aid will be repaid in the forms of rent for, and sale of, factories, and repayment of loans. The 1968/69 estimate for training includes the schemes for providing 70 per cent of the cost of equipping off the job training places for adult workers, and for providing 60 per cent of the capital cost of additional places for apprentice training. The figures for this form of aid exclude the cost of premises.
- (2) 20 per cent Development Area differential.
- (3) In a full financial year the Regional Employment Premium is estimated to cost £99 million.
- (4) In a full year the cost of the SET refund to hotels in certain rural areas is estimated to be £1 million.
- (5) Public Works Loan Board.
- (6) Provisional.
- (7) Estimated.

of 25 per cent for projects in Development Areas, compared with 20 per cent elsewhere.

12. Chart 9.1 shows the dramatic scale of the increase in financial assistance and the widening scope of the facilities offered to industry and local government. The Government are currently spending some £295 million a year on assistance to the Development Areas and the Special Development Areas. In support of these extensive financial incentives since October 1964 the Government have applied strictly the control over industrial floor space in the South-East and Midlands. This combination of incentives and of control has been reflected in the much higher proportion of all industrial development certificates, in terms of floor space, issued* for the Development Areas: it rose from 33 per cent in 1967 to 36 per cent in the first three-quarters of 1968.

13. These policies can make an important contribution to national economic objectives in the next few years. To the extent that they were successful in altering the regional balance of economic activity by bringing people in the Development Areas into the labour force who would otherwise have been without work, national productive potential would be increased, and it would become possible to maintain a higher level of national demand without adding to inflationary pressures on costs and the balance of payments. Because several of the instruments of policy are recent innovations, it is not yet possible to make accurate assessments of this contribution; but the Government are keeping the effects of these policies under close review to ensure that the substantial sums now being spent are deployed in the most effective ways.

14. The success of regional policies ultimately depends on knowledge and understanding. The Government took an early opportunity of incorporating the objectives of their regional policy in the White Paper on the Scottish Economy 1965-70, published in 1966, and in the White Paper, Wales: the Way Ahead, published in 1967†. In the last few years, the Government have commissioned a number of major reports and forms of research, many of which are soon due for completion. The Hunt Committee has already been mentioned in paragraph 7 above. The

* Approvals, not completions.

† The Scottish Economy 1965 to 1970: A Plan for Expansion, Cmnd. 2864, January 1966; Wales: The Way Ahead, Cmnd. 3334, July 1967.

formidable technical difficulties of regional planning are a relatively new field for study in this country and in 1965 the National Institute for Economic and Social Research were commissioned 'to build up a theoretical and empirical framework for the analysis of regional economic development and the consideration of regional policy in the United Kingdom especially in relation to problems of national economic development'. This study is progressing well and should be completed during 1969.

15. Within the administration a number of major studies of long-term significance are nearing completion or are well advanced. As a result of a preliminary examination of the issues concerned with the long-term distribution of the 15–20 million increase in the population expected by the end of the century, the Government commissioned special studies of three particular areas. That of Humber-side is complete and will be published soon, while those of Severnside and Tayside are advancing satisfactorily. Further work is also continuing on the more general issues associated with the distribution of the population in the long term. In England, all the Regional Economic Planning Councils have now published major surveys of their regions, usually with provisional recommendations for the strategy of development to be pursued. Because of the importance of the issues involved in the South-East region and in the West Midlands conurbation and its surrounding area, the Government have asked two study teams to carry out investigations in greater depth: in the South-East a joint team of Government and local planners and in the West Midlands a Conference of all Planning Authorities with the support of relevant Government Departments. These studies should be completed within the next 18 months. Many other pieces of work of a more restricted nature are also under way all over the country: sub-regional studies of selected problem areas, land-use-transportation surveys, and others. When all these studies are complete there should be a far sounder basis than hitherto for decision on regional policy.

Employment prospects over the next few years

16. The rest of this chapter discusses the broad prospects of all regions up to 1971. Over the next few years the size of the national population within the working age groups is expected to decrease for mainly demographic reasons in contrast to the substantial rise of the early 1960s (see

chapter 4), so in all regions there will be a basic decline in labour supply. Any assessment of the impact of regional policies must therefore concentrate on the relative differences between regions, and the discussion is in these terms. The South and Midland regions of England have been grouped together to provide the standard for comparison*. It should not be inferred from the grouping that all parts of the South and Midlands have similar characteristics. The areas of greatest pressure on resources are the London and Birmingham conurbations, a point made at the beginning of this chapter in paragraph 3. By contrast, the South-West region, which is included in the term South and Midlands, contains areas, particularly those scheduled as Development Areas, whose problems contrast both with the rest of the South and Midlands, and also with other parts of the South-West region itself.

17. Between 1961 and 1966 male employment in the South and Midlands rose by nearly 6 per cent more than in those regions which largely consist of Development Areas†. More than half this difference—just over 3 per cent—arose from changes in employment in mining and agriculture, while almost all the remainder was in the service sector associated with the concentration in the South-East of some of the fast-growing private sector service industries such as insurance, banking and finance. In manufacturing employment there was very little difference in the growth rates, the movement of new jobs to the Development Areas compensating for the losses in some of the older sectors such as shipbuilding and marine engineering. There were also substantial but smaller differences between rates of employment growth in Yorkshire and Humberside and in the North-West compared to the South and Midlands. In the former the difference of $2\frac{1}{2}$ per cent was widely spread among industries; but in the latter the rather bigger difference of 4 per cent was largely due to a substantially slower rate of growth in employment in construction and service industries.

18. For female employment the geographical pattern of growth was strikingly different. While there was no

* The term South and Midlands used in this chapter includes the South-East, East Anglia, South-West and West and East Midlands Economic Planning Regions.

† Scotland (all Development Area except for Edinburgh, Portobello and Leith Employment Exchanges); Wales (of which the Development Areas account for two-thirds of total Welsh employment) and the Northern Region (wholly a Development Area). In the rest of the chapter these are termed the 'Development regions'.

difference between the rate of growth in the South and Midlands and that in the Development regions, in the two regions heavily dependent on textiles—the North-West and Yorkshire and Humberside—growth in female employment was respectively $6\frac{1}{2}$ per cent and $2\frac{1}{2}$ per cent lower than in the South and Midlands.

19. The main problem in predicting the pattern of changes for the next few years is the assessment of the extra contribution to employment growth arising from the higher levels of incentives now available in Development Areas; and the extent to which in each region this extra growth will outweigh the decline in male employment in older industries such as mining and steel, set out in chapter 7. During the later 1960s, colliery closures tended to be concentrated in the Development Areas. The peak of the absolute rate of rundown was reached in 1968 and the rate is now decreasing. It can be expected that the unfavourable impact that colliery closures have had on the employment prospects of the Development Areas, where the less economic pits have been concentrated, will be diminished.

20. Among other industrial factors three seem to be likely to have a substantial effect on the balance of regional growth. Growth in employment in construction in some of the Development regions which has been above the national average in 1961–66 is likely to slow down substantially. Employment growth in motor vehicles, which was high in the earlier 1960s and which led to particular pressure in the West Midlands, is unlikely to be large but to be geographically better distributed. Finally, a slower employment growth in most private sector service industries will tend to reduce employment growth in the South-East.

21. Together these various industrial factors would result in a rather higher rate of job loss for men than in the early 1960s, were it not for the intensification of regional measures. There is as yet no firm empirical evidence on which a numerical estimate based on experience can be made as to the number of extra jobs that will result from these measures. Much will depend on the rate of growth of output and private investment in manufacturing industry.

22. If national output were to grow at $3\frac{1}{4}$ per cent a year (taken as the basic case in earlier chapters of this document), it seems likely that for men the extra job creation would be roughly of the order required to prevent any deterioration in the growth of employment in Development regions compared with the South and Midlands. Progress would be much greater but for the continuing impact of changes in the older industries. In manufacturing industry male employment growth for Development regions would continue to be no slower than in the South and Midlands.

23. Prospects for women are in general considerably brighter, with rather faster progress relative to the South and Midlands than in the early 1960s. Most Development regions still have relatively low proportions of women at work, but the differences with the South and Midlands in this respect should be much reduced by 1971.

24. Outside the Development regions, the rate of decline in older industries is likely to have its greatest impact in Yorkshire and Humberside. There is some prospect that the rate of employment growth there, which for both men and women was already in the early 1960s below that in the South and Midlands, might fall still further relatively. In the North-West, on the other hand, largely because of the likely progress in the Merseyside Development Area, there should be some relative improvement.

25. This considerable general progress in reducing regional disparities is unlikely to be evenly spread. It will probably be least evident in Wales and the Northern region, especially because of the need to provide new jobs for men displaced from traditional industries. Outside the Development Areas, there could be further widening of the gap between the South and Midlands and the remaining regions.

26. In spite of these relative improvements, major regional disparities between the South and Midlands and the rest of the country will still persist in 1971. The deep-seated problems of transformation in the less buoyant regions of the country cannot be fully overcome in such a brief period, and discriminatory policies will continue to be required in subsequent years. But there is a good prospect that, in the next few years, major progress will be

made towards the narrowing of these substantial disparities that have persisted for so long.

Labour supply and unemployment

27. Likely changes in job opportunities have to be set against expected changes in the size of the working population in the region. Changes in the latter depend on a number of factors: the rate of natural increase of the population of working age in each region; the flow of migrants into and out of the regions; and the regional activity rate, that is, the population of working age actively seeking employment. The last two are closely connected with changes in labour demand since differences in job opportunities are a major cause of both outward migration and low regional activity rates. Given the uncertainty as to how quickly and how fully improvements in employment opportunities will be reflected in migration and in activity rates, the most that relative employment changes can indicate is the broad direction of change. If it is favourable, then activity rates or inward migration are likely to rise, or outward migration or unemployment rates to fall, or some combination of all four. As already explained, over the country as a whole there are expected to be rather fewer people in the late 1960s and early 1970s seeking jobs than there were in 1966, but in the South and Midlands the numbers might grow rather less fast than the employment opportunities, particularly as the national level of demand begins to rise. The danger of this situation is that a tightening labour market in London and Birmingham, if accompanied by unfavourable effects on exports and costs, could make it more difficult to maintain the high national level of employment that is desirable.

28. This risk—and the uncertainties relating to the projections are such that it would be wrong to describe it as more than this—underlines the need to maintain strong policies designed to divert growth in employment away from those parts of the South and Midlands likely to be the areas of potential pressure. The Government hope that all firms in considering their own future plans will take full account of the risk; for it is in their private interests as well as in the national interest that their expansion should not be located in areas where there is keen competition for the available labour.

29. Among the Development Areas, prospects seem best in Merseyside. The unemployment rate there in 1968 was only about 1.3 times the national average, against 2.2 times in 1963, and progress is expected to continue (see chart 9.2).

30. Unemployment in the South-West Development Area was about the same in 1968 as in 1963, at around 1.5 times the national average. However, considerable progress has been made since 1965-66, when the area's unemployment rate was over twice the national average, and some further improvement is likely.

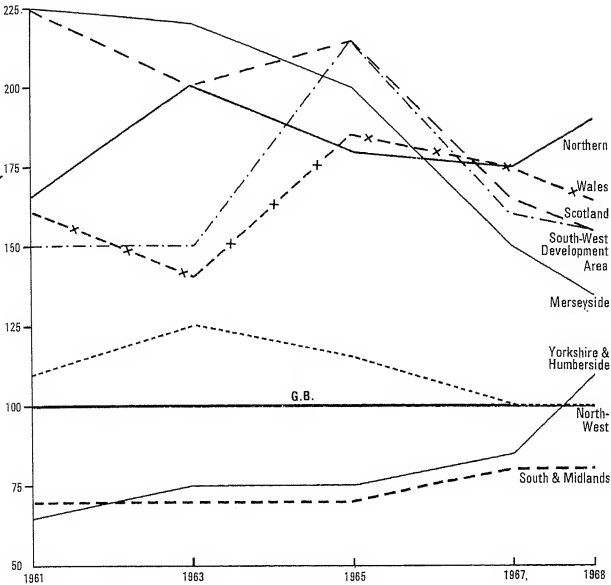
31. In Scotland too, real progress has been made. In 1968 the unemployment rate had fallen to under 1.6 times the national average as against 2.0 times in 1963, though some part of this change was due to emigration. Major problems, however, persist; these are the continuing high level of net outward migration and the continuing decline in male employment. Much is already being done to improve training and re-training in Scotland, as in all Development Areas; but more needs to be done, particularly within industry, both to re-train and to ensure a greater acceptability of re-trainees. In this way, the large reserves of labour, especially males, becoming available in Scotland can be efficiently used. With increasing job opportunities for re-trainees, unemployment should fall further. Provided the flow of new industry is maintained, it is reasonable to expect the improved relative unemployment rate to continue. It should also be possible to secure a further reduction in the rate of net outward migration.

32. Achievement of the employment objectives might take rather longer in Wales and in the Northern region. Good progress should continue to be made in raising the proportion of married women who find work to a level rather nearer that prevailing in the rest of the country. But more time will be needed to solve the problems in respect of men. During 1968 unemployment in the Northern region rose faster than in other areas. These regions' economies are still especially dependent on the staple industries of coal and steel, although that dependence is rapidly diminishing. If the task of transformation had been tackled more vigorously many years ago, both economies would now be much further advanced towards a new

Chart 9.2

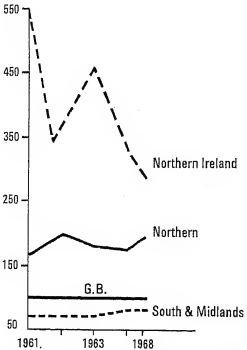
Regional unemployment relatives

G.B. = 100



Notes:

1. June each year (rounded to nearest 5) wholly unemployed seasonally adjusted, except for the Merseyside and the South-West Development Areas, the relatives for which are based on the total register non-seasonally adjusted data, and are therefore not directly comparable with relatives for other regions.
2. South and Midlands are defined in footnote to paragraph 16.
3. Because of boundary changes the 1961 and 1963 figures for Yorkshire and Humberside are for Yorkshire and Lincolnshire.



industrial base. As it is, the pace of change is bound to be high in the next few years as the required transformation is carried through. But thereafter the prospects are good. The inflow of new industry is substantial, and in each region major improvements have been and are being made to communications with the rest of the country.

33. Although, therefore, the next few years are bound to be difficult, both regions can look forward to a time in the 1970s when their worst problems will have been overcome and the disparities with the rest of the country greatly reduced. Much will depend on the speed with which progress in the balance of payments leads to a general reduction in unemployment and upon the response that industry makes to the incentives that are available. But the Government—together with the Economic Planning Councils—are determined that the economies of these regions should be re-built on a new firm foundation resting on the development of new activities replacing those which have become uncompetitive.

34. Problems of transformation will also be important in the two other regions of slow employment growth. Both Yorkshire and Humberside and the North-West outside Merseyside will be losing jobs on a considerable scale in their traditional industries, both mining and textiles. Because both have a wider economic base their problems are less severe than those of Wales and the Northern region and, except in the coalfield area of Yorkshire, unemployment is not now a serious problem.

35. This chapter has been largely about an important but limited aspect of regional policy and planning: the prospect of the next few years with particular reference to the Government's discriminatory policies to promote growth in less favoured regions. The assessment of the prospect does not suggest that there is scope for a fundamental reappraisal of the degree of priority now given to correcting regional imbalance, although changes of emphasis as between measures may be required as further experience is gained of their effectiveness.

36. As the various studies which are in progress (see paragraphs 14 and 15 above) bring into sharper focus the prospects and potential of particular areas, it may well be

necessary to re-consider both the geographical application and the form and effectiveness of current discriminatory measures. The Hunt Committee's report will bear on these vital issues, particularly in respect of the prospects for slow employment growth in Yorkshire and Humberside and the North-West. But the appraisal in this chapter of the broad prospect points clearly to the continuing need to give marked priority to the problems of the Development Areas as a whole.

Chapter 10—The Next Stage: Consultation with Industry

The opening chapter of this document discussed the planning process and the contribution it can make to improving economic performance, and emphasised the importance which the Government attach to close and continuing consultation with industry.

2. Consultations with both sides already take place over a wide area and at many levels, and the results are reflected in the policies of Government, management and the trade unions.

3. At national level there is a need for consultation at the early stages in the formation of new policies and for the exchange of views about longer-term issues. This need may be best met initially by means of bilateral discussions, and such discussions regularly take place between the Government and the CBI and Trades Union Congress. At the appropriate stage longer-term issues are brought to the tripartite forum provided by the NEDC, where they can be discussed by the Government and the two sides of industry. The Council also considers important questions and proposals which emerge from the work of individual EDCs. In addition the Council offers an effective means of enabling the Government to keep in touch with the two sides of industry about short-term movements in the economy.

4. Continuous consultation also takes place within individual industrial sectors. Here the EDCs make and will continue to make a valuable contribution. In the majority of industrial sectors they provide the only tripartite body within which the Government and both sides of industry discuss general industrial and economic questions. Each EDC and its associated working parties and groups is able to bring wide experience and expert knowledge to bear on the study of the performance and efficiency of its own industry. In the industries they cover the EDCs are, therefore, the natural forum for the consultations now envisaged on the basis of this Economic Assessment.

Consultations on the Economic Assessment

5. The Economic Assessment is principally concerned with the broad trends in the economy as a whole and with their implications for economic and industrial policy. The broad assessment should now be followed through in relation not only to the Government's policies but also to the policies pursued by both sides of industry and by individual managements and unions. The Economic Assessment provides a framework for consultation with industry on what action should be taken to achieve the broad, linked objectives which are outlined in the opening chapter. In summary these are:

- (i) the achievement of a substantial and continuing surplus in the balance of payments;
- (ii) a steady improvement in the competitive efficiency of the economy;
- (iii) an improvement in the regional balance of the economy.

6. It is by the achievement of these objectives that a satisfactory rate of growth of output can be obtained. In the consultations with industry priority will be given to the first objective and therefore to the contribution which each industry can make to the improved trade balance. The rate of economic growth will also depend on the extent to which effective action is taken to improve the underlying rate of growth in productivity. The consultations will be based on the detailed industrial estimate shown in chapter 7 for a single set of assumptions—an economic growth rate of $3\frac{1}{4}$ per cent. But this is only a starting point which should lead to a study of the implications of different rates of growth.

7. The Government cannot by themselves bring about the improvement in national economic performance to achieve the objectives set out above: for example, an improved balance of visible trade over the economy as a whole is no more than the aggregate of the improvement achieved in individual industries and in very large numbers of individual firms. Hence the emphasis laid in this document, not only on full consultation between the Government and both sides of industry in formulating the basic assessment of the economic situation, but also on the need to consult fully about the implications of that

assessment for individual industries and on how action can best be taken by the Government or by either side of industry, or by all three working together, to achieve the economic performance which is essential to the recovery of the economy and the welfare of all the parties concerned in it.

Selection of industries for detailed consultation

8. While it is necessary for the implications of the Economic Assessment to be considered by all industries, special detailed consultations will take place with selected industries which directly or indirectly hold a key position in securing a major shift of resources into the balance of payments and into improving the effectiveness of investment. The following sectors have been selected for detailed discussions :

Private sector

(a) Covered by EDCs—

- Chemicals
- Electrical engineering
- Mechanical engineering
- Electronics
- Motor vehicles
- Machine tools
- Paper and board

(b) Not covered by EDCs—

- Shipbuilding
- Aircraft
- Iron and steel castings

Public sector

- Energy
- Steel

The precise areas of consultation in the mechanical and electrical engineering and the electronics sectors will be discussed with the EDCs concerned.

9. The invisibles sector clearly holds a key position in relation to the balance of payments. This sector has not, however, been included in the list of industries in paragraph 8 above because the procedure envisaged for consultations with these industries (see paragraphs 11–13 below), would not be entirely appropriate for the

sector. Moreover, in the case of civil aviation and shipping, major enquiries are already taking place. The Committee on Invisible Exports will be generally informed about the consultations which are to take place and will be invited to consider what contribution it could make. The Hotels and Catering EDC will also be in a position to make a contribution under the procedure envisaged for EDCs not covered by detailed consultations.

Level of consultations

10. To be effective, the detailed consultations envisaged require the full involvement of available consultative bodies. Most of the industries in the private sector selected for detailed discussions are covered by EDCs, and bodies exist for consultation with the remaining selected sectors. The detailed consultations at this level should not, however, inhibit the normal contacts which Government departments maintain with trade associations and individual firms. Moreover, in appropriate cases, the discussions with EDCs will need to be complemented by direct high level discussions with individual firms. Such individual discussions, generally dealing with very specific questions, will reinforce the wider discussions conducted through EDCs.

Procedure for detailed consultations within the private sector

11. To initiate detailed discussions with the selected EDCs and other appropriate bodies papers will be prepared summarising the economic framework set out in this Assessment, indicating its implications for each industry and drawing attention to issues which merit the special attention of the EDC and suggesting questions to which they might address themselves; giving guidance to the EDC on the timetable proposed; setting out the objectives of the consultations and relating these to the existing work and organisation of the EDCs. In this connection, a number of EDCs will be able to draw on existing forecasting and other working groups of experts and, where necessary, existing working groups will be strengthened or new groups formed.

12. The issues to which the EDCs and other bodies will direct their attention are likely to vary significantly from industry to industry and the questions referred to them

will have to be adjusted to meet the particular circumstances of each EDC or appropriate body and its industry. Bearing in mind this need for flexibility, and the probability that the EDCs and other bodies will themselves have views on matters relevant to the Economic Assessment which they should consider, the information which the EDCs and other bodies will be asked to provide, within the framework set by the papers they will receive, will relate to some or all of the following: markets and potential demand, capacity, investment, manpower, and the effective use of capital and manpower resources and other factors affecting the competitive efficiency of the industry, together with proposals for action by Government and industry. Where practicable EDCs will also consider the impact of investment and manpower changes on the regional balance of the economy. Each EDC or appropriate body will be asked to assemble the results of its studies in a report for consideration by the NEDC.

13. A similar approach will be adopted for consultations with the aircraft and shipbuilding industries and the results will be brought to the NEDC. Iron and steel castings are referred to in paragraph 16 below.

Procedure for EDCs not covered by the detailed consultations

14. All EDCs have a 'planning' function included in their terms of reference. Since the last planning exercise EDCs have concentrated on the improvement in the efficiency of their own industries. This has involved many of them, such as the Construction and Agriculture EDCs, in setting up forecasting working parties, commissioning demand forecasting studies or undertaking other work which has a relevance to the Economic Assessment. Those EDCs for sectors not covered by the detailed discussions will be able to take advantage of the Economic Assessment to adjust and extend their work programmes.

15. These EDCs will receive the paper summarising this Assessment, referred to in paragraph 11, and a suitable note of guidance informing them generally of the exercise which is being set in hand. This will take account of relevant work by the EDCs and suggest work programmes to meet the particular circumstances of each EDC, with due regard to the availability of resources to handle the less detailed consultations envisaged. They will

continue to receive the statistics and information already being made available to them by Government. There will be important questions which cross the boundaries of EDCs, and the EDCs not covered by the detailed consultations may be required to carry out work related to these questions.

Procedure for consultation within the public sector

16. As indicated in paragraph 8 of this chapter, detailed consultations within the public sector will be concentrated on the energy and steel industries. These will be carried out in large part through the normal continuing process of discussions between the Government and nationalised industries. The trade unions and private sectors of the steel industry and the iron and steel castings industries will be involved through the work of the Energy Advisory Council, the Iron and Steel Advisory Committee and its two sub-committees on iron and steel castings.

17. The other nationalised industries will be generally informed about the exercise in broadly the same way as those EDCs not covered by the detailed consultations.

Timetable for consultations

18. The time required for effective consultations will inevitably vary from sector to sector and will in part depend on the extent to which existing work can be used and new studies have to be carried out. This will be a matter which the EDCs will wish to consider, but in general it would seem necessary to allow up to eight months for the completion of consultations and the preparation of reports for the NEDC.

19. In addition to these reports, the Council will receive a short reassessment of central economic prospects, prepared by Government in conjunction with the NEDC, taking account of the sector results, and including a tentative forward look to 1973 (or 1974). In this way it is the intention that the present round of consultations should form the beginning of a continuing process in which the forecasts and subsequent consultations are rolled forward regularly on whatever lines prove by experience to be the most useful to industry and to the Government.

THE TASK AHEAD ECONOMIC ANALYSIS TO 1972

ADDENDUM

Page 55. The following table replaces the table printed on page 55.

Public expenditure⁽¹⁾ economic analysis

Table 5.2

£ million

	1967/68 outturn at current prices	1968/69 forecast outturn at current prices	1969/70	1970/71
			estimates at 1969/70 Estimates prices	
Current expenditure:				
Current expenditure on goods and services	7,194	7,671	7,933	8,037
Subsidies	834	864	872	864
Current grants to personal sector	3,481	3,927	4,106	4,207
Current grants abroad	183	171	170	171
Total	11,692	12,633	13,081	13,279
Capital expenditure:				
Gross domestic fixed capital formation	2,138	2,340	2,440	2,605
Increase in value of stocks	35	30	30	35
Capital grants to private sector	524	671	659	671
Net lending to private sector	76	92	33	57
Other capital expenditure	115	104	117	114
Total	2,888	3,237	3,279	3,482
Contingency reserve	—	—	75	165
Total public expenditure	14,580	15,870	16,435	16,926

⁽¹⁾ See footnote ⁽¹⁾ to table 5.1 above.

Department of Economic Affairs
February 1969.

Printed in England
by Her Majesty's Stationery Office